Havering
LONDON BOROUGH

HAVERING PENSION FUND

ANNUAL REPORT

MARCH 2013

Pensions Regulator Registration Number 10027841

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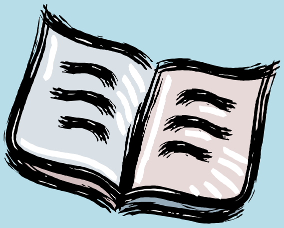

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TRUSTEE REPORT

Foreword to the Third Annual Report of the Havering Pension Fund for the year ended 31st March 2013

During the year the Pensions Committee dealt with several key issues, which are listed on page 33 of the report and its members attended a number of associated training and development seminars, which are similarly listed on page 34.

In addition to highlighting the work of the Pensions Committee, an overview of the activities of the Pension Administration team is contained on pages 9 -11 of the report.

A lot of work was undertaken during the year to review the investment strategy, which resulted in introducing an asset allocation to multi asset strategies and it was agreed that this will be funded by reducing direct holding in Equities. Once the mandates for the multi asset managers commences the fund will then be in line with its investment asset allocation targets. Members also decided to introduce an exposure to local infrastructure and will be exploring how to develop this allocation.

The value of the Fund as at 31st March 2013 was £461m, an increase on the previous year end valuation of £404m. The fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The overall return on the Fund's investments (over the year growth of the fund expressed in percentage terms) was 14.4%. Further information on the Fund's investment performance can be found on page 22 of this report.

Stock markets are still very volatile and although the value of the Fund's assets grew during 2012/13 the impact of the rising value of liabilities will give rise to concerns for the funding level of the Fund as we approach the next cycle in the Valuation process; which will be set in motion after 31 March 2013.

As part of the continuing review of public expenditure the Government has consulted and continues to consult on changes to public pensions and members' concern of what the future holds is understood. Members have considered the impact of the Pensions Services Bill and Automatic Enrolment, and will be considering the regulations covering the new scheme due to be implemented from April 2014.

I trust that this report is both clear and informative to Fund members and for the general public, but should clarification be required, or comment made, contact details are shown on page 60.

Councillor Rebecca Bennett
Chairman – Pensions Committee

INTRODUCTION

The Council is an Administering Authority and operates a pension fund on behalf of its employees and pensioners under the provisions of the Local Government Pension Scheme Acts and Regulations. The Pension Fund is called the Havering Pension Fund (the 'Fund').

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts and has established a separate bank account.

The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. However, the performance of the Fund investments will not affect pension benefits to scheme members as benefits are guaranteed by Statutory Regulations irrespective of performance.

Scheme Details

The new look pension scheme came into force for all active members and potential members of the Local Government Pension Scheme (LGPS) on 1 April 2008.

Members of the LGPS belong to a scheme which currently provides high quality pension benefits based on the best of the last three year's pensionable pay (whole time equivalent pay) and actual scheme membership (reckonable service). Because the Scheme is a defined benefit scheme, members' benefits are calculated strictly in accordance with the Regulations and are not subject to changes generally affecting the fund assets. The Scheme is contracted out of the State Second Pension. This means that any pension paid from the Local Government Pension Scheme must be at least equal to the Guaranteed Minimum Pension (GMP) otherwise provided by SERPS to 5 April 1997.

Pensions are increased annually in line with the Consumer Price Index unless retirement occurred on the grounds of Redundancy or Efficiency before age 55, in which case, any increase is payable from age 55.

The scheme also pays a death benefit in the form of a lump sum and a pension to the spouse, civil partner, or nominated cohabitee of a member who dies in service. A dependant's pension is generally also paid to the spouse, civil partner or nominated cohabitee of a member who dies after retirement, or with a deferred pension.

The scheme is open to all local authority employees (except teachers) who have their own schemes) and for employees of other eligible bodies. Admitted bodies are currently only offered "closed" membership. All eligible employees who have a permanent or temporary contract of 3 months or more are contractually enrolled in the fund from the first day of employment. Any member of the scheme can opt out by completing an opt out form available from the pension website www.yourpension.org.uk/handr

A summary of the benefits of the LGPS are shown below. Further detail of the specific conditions and detailed benefits can be obtained from Internal Shared Services and the Pensions website at www.yourpension.org.uk/handr

The core benefits of the scheme are:

- A guaranteed pension based on final pay and the length of service in the scheme
- The ability to provide a tax-free lump sum by commutation of pension. Members of the scheme prior to 1 April 2008 have a tax free lump of approximately three times the pension accrued based on service to 31 March 2008.
- Life assurance of three times the members' pensionable pay from the day they join the

scheme.

- Pensions for spouses, civilly registered partners and qualifying cohabiting partners. Eligible children are also entitled to a pension.
- An entitlement paid early if a member has to stop work due to a permanent ill health.
- Pensions increase in line with CPI.
- Pensions are payable from age 55 with employers consent, including flexible retirement.

The cost of membership:

- Employees pay a tiered contribution based on whole time equivalent pay of between 5.5% and 7.5%.
- Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. In 2012/13 the contribution rates for employers in the Havering Pension Fund range from 14.7% to 25.3% based on the valuation as at 31 March 2010.
- The next triennial valuation in 2013 will set the contribution rates from 2014/15 onwards.

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

SCHEME MANAGEMENT AND ADVISORS

The overall direction of the Funds investment strategy is delegated to the Council's Pension Committee. Performances of the six different fund managers, who have specific mandates, are measured against agreed benchmarks for each mandate.

The Pensions Committee also obtains and considers advice from the authority's officers, and as necessary from the Fund's appointed investment adviser, actuary and performance measurers who also attend meetings as and when required.

The Fund also appoints a custodian for the safekeeping of the scheme's asset, such as holding share and bond certificates and cash. The custodian also puts together reports on the accounting value of assets held.

Day to day management of the Fund is delegated to the Group Director Resources.

The membership of the Pensions Committee reflects the political balance of the Council and the structure of the Pensions Committee members up to May 2013 were as follows:

Cllr Melvin Wallace (Chair) – Conservative Group
Cllr Rebecca Bennett (Vice Chair) – Conservative Group
Cllr Roger Ramsey– Conservative Group
Cllr Eric Munday – Conservative Group
Cllr Ron Ower – Residents Group
Cllr Pat Murray – Labour Group
Cllr Jeffrey Tucker – Independent Local Residents Group
Union Members (Non voting) - John Giles (Unison), Andy Hampshire (GMB)
Admitted/Scheduled Body Representative (voting) – Vacant until Marilyn Clay – Campion Academy (appointed from December 2012)

There were some changes made to the elected members of the committee due to Councillor Munday taking on the role of Mayor. From May 2013 the voting Committee members were as follows:

Cllr Rebecca Bennett (Chair) – Conservative Group
Cllr Melvin Wallace (Vice Chair) – Conservative Group
Cllr Roger Ramsey– Conservative Group
Cllr Steven Kelly - Conservative Group
Cllr Ron Ower – Residents Group
Cllr Pat Murray – Labour Group
Vacant – Independent Local Residents Group

The terms of reference for the Pensions Committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

Fund Administrator	London Borough of Havering, Town Hall, Romford, RM1 3BD
Fund Actuary	Hymans Robertson from 1 April 2010
Auditors	PricewaterhouseCoopers LLP (PwC)
Custodians	State Street Global Services
Investment Managers	Standard Life Investments (UK Equities) Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) from State Street (Passive UK/Global Equities) Baillie Gifford (Global Equities) from April 2012
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)
Bankers	National Westminster Bank PLC
Performance Measurement	WM Company
AVC Providers	Prudential and Standard Life
Group Director Resources	Andrew Blake Herbert
Pension Fund Accountant	Debbie Ford
Pensions Administration Management	Internal Shared Services Transactional Manager Karen Balam

Employers in the Fund are as follows:

- London Borough of Havering (includes non teaching staff in schools and schools listed below under Designated Bodies)

Scheduled bodies

- Havering College of Further Education
- Havering Sixth Form College
- Homes in Havering (ceased 30 September 2012)
- Drapers Academy (Academy from 1 September 2011)
- Abbs Cross School (Academy from 1 April 2011)
- Brittons School & Technology College (Academy from 1 April 2011)
- Coopers' Company & Coborn School (Academy from 1 April 2011)
- Hall Mead Secondary School (Academy from 1 August 2011)
- The Albany School (Academy from 1 August 2011)
- Campion School (Academy from 1 August 2011)
- Sacred Heart of Mary's Girl's School (Academy from 1 August 2011)
- St Edwards CE Secondary Comprehensive (Academy from 1 August 2011)
- Redden Court (Academy from 1 September 2011)
- Emerson Park (Academy from 1 September 2012)
- Frances Bardsley School for Girls (Academy from 1 July 2012)
- Upminster Junior School (Academy from 1 November 2012)
- Upminster Infant School (Academy from 1 November 2012)
- Bower Park (Academy from 1 February 2013)

Admitted Bodies

- Havering Citizens Advice Bureau
- Mears (taken over from Morrisons November 2012)
- Sports & Leisure Management Ltd
- KGB Cleaners
- Volker (joined November 2011)
- Family Mosaic (joined November 2012)

Designated Bodies:

Trust Schools

- Corbets Tey Special School

Foundation Schools

- Marshall Park (Foundation from 1 September 2011)
- Royal Liberty
- Frances Bardsley School for Girls (up until 30 June 2012)
- The Chafford School
- The Sanders Draper School
- The Mawney Primary School

Voluntary Aided Schools

- St Alban's Catholic Primary
- St Edward's CE Primary
- St Joseph's RC Primary
- St Mary's RC Primary
- St Patrick's Catholic Primary School
- St Peter's Catholic Primary School
- St Ursula's RC Junior School
- St Ursula's RC Infant School

ADMINISTRATIVE MANAGEMENT PERFORMANCE

Pension Services Local Performance Indicators 2012/13

INDICATOR	What is it an indicator of	Actual 2011/12	Actual 2012/13	Target 2012/13
The percentage of retirements processed within 5 working days	The percentage of retirement payments processed within 5 working days of the employee retiring or receipt of all relevant information. This indicator measures effectiveness through service delivery and is a standard throughout Local Government	76.79%	81.32%	95%
The percentage of early retirement estimates processed within 10 working days	To produce estimates for early retirements i.e. ill health, redundancies and voluntary retirements within 10 working days of request, normal retirement date or receipt of all relevant information. This indicator is particularly important to service clusters	82.68%	79.85%	91%
The percentage of Notification of deferred benefits within 15 working days	To notify members who have left their job (or one of their jobs) of the deferred benefits that they have accrued at the point of leaving within 15 days of all relevant information.	46.17%	32.92%	60%
The percentage of 'Transfers In' actuals processed within 15 working days.	The percentage of transfers in with the members' record updated with the transferred in information	16.67%	40%	80%
The percentage of 'Transfers Out' actuals processed within 15 working days	The percentage of transfers out paid to the new pension provider	92.86%	81.25%	80%
The percentage of 'death' notifications written out to within 5 days of receipt of all information received.	The percentage of deaths with notification of benefits	66.67%	68.42%	95%
The percentage of joiners processed within 10 working days of information received	The percentage of joiners records set up on AXIS	67.24%	51.68%	70%

The Pensions Administration Team, part of Internal Shared Services, is split between two teams, the Benefits Team and the Member Record Maintenance Team. The Pension Service Local Performance Indicators represent the main core of the benefits team output but do not cover all the calculations and processes carried out by this team. The indicators do not include a substantial amount of work carried out by the record maintenance team who effectively manage the quality of the data held, which has a direct impact upon the triennial valuation. Performance levels for areas that impacted directly on the release of pensions were improved during the year (retirements processed and 'death' notifications written out to within 5 days) although performance in other areas was variable. The percentage performance data does not give a true reflection of the overall performance of the team in relation to the measured work. During the year the volume of work processed increased significantly, and areas of backlog were also targeted to aid the triennial valuation and prepare for a new pension system, this is illustrated in the table below which provides the comparison between years for volumes of work undertaken where significantly different.

Indicator	Volume 2011/12	Volume 2012/13
The volume of work that feeds into the percentage of Notification of deferred benefits within 15 working days	172	653
The volume of work that feeds into the percentage of 'death' notifications written out to within 5 days of receipt of all information received.	93	152
The volume of work that feeds into the percentage of joiners processed within 10 working days of information received	522	743

Other factors impacting upon the stability and growth of performance are set out below.

Retention and recruitment of staff

- Internal Shared Service restructure in May 2012 resulted in an experienced Pension Manager moving from operational administration work to specific project work.
- A long service, highly experienced, Senior Pension Officer retired in August 2012.
- Recruitment was on-going from April 2012 and was successfully completed in September 2012. The team during 2012/13 comprised of 50% new staff all requiring training and support. The need for training and support will continue into 2013/14 due to the implementation of a new pension administration system (moving from AXIS(e) to Altair), training for the new CARE 2014 Scheme and member communication of the new scheme.
- An experienced member of staff from the Benefits team has been supporting the training, development and mentoring of all the new staff.

Triennial Valuation and Data Quality

To ensure robust, complete, high quality data is held in the pension system it has been a priority to ensure all exceptions and anomalies were thoroughly reviewed with gaps investigated and correct data ascertained. This has meant balancing the needs of ensuring membership records were complete and accurate against meeting benefit target timescales. Priorities have continually been reviewed throughout the year to ensure these conflicting priorities could be delivered, whilst improving the performance against targets that directly impacted the payment of benefits. The team have successfully balanced improving the percentage of retirements processed within 5 working days and the percentage of 'death' notifications written out to within 5 days of receipt of all information at the same time as delivering member data that has been assessed as good quality data by the Pension Fund Actuaries.

The Actuaries have stated that there has been a decline in the quality of data held by many other funds for the 2013 valuation. The reasons behind the decline in the quality of data held by funds have been identified as:

- reduction in administration staffing numbers;

- complexities in preparing for the new benefit structures;
- the proliferation of new employers (such as Academies); and
- the outsourcing of administration functions.

The impact of poor quality data is:

- additional actuarial fees in respect of validating and correcting data;
- higher than anticipated contribution rates due to prudent adjustments being made for actuarial calculations; and
- additional administration costs in respect of correcting historical problems.

To quantify this, should additional work be required of the actuaries to validate/correct membership data the estimated costs to the fund could approach £20,000. Furthermore, the impact of good quality data could impact on the employer's contribution rate by as much as 1 - 2% of pay.

An estimate, based on 31 March 2012 data, of the recurring cost and impact on employer revenue budgets for the LGPS is shown below for the London Borough of Havering and maintained schools.

LGPS	**1%**	**2%**
London Borough of Havering	£0.547m	£1.094m
Schools	£0.209m	£0.418m
Total	**£0.756m**	**£1.512m**

Local Government Funding Cuts

All Local Authorities are under pressure to make huge financial savings. Several areas of the authority have been reviewed and restructured. This impacts the Pension section in two ways:-

- High demand from employees for information and guidance in respect of their pension benefits should they decide to retire earlier than they initially planned or be made redundant

- High demand from service areas for Redundancy and Early Retirement Estimates as well as guidance in the options available.

The Council continues to look at different ways of delivering services which impacts upon the Pension Team. Demand for pension guidance for managers and employees working in areas that may be subject to change continues to escalate.

Academies and Outsourcing

The pace of conversion of schools to Academies has continued to have a significant effect on both the Pensions and Payroll teams due to the unique employer status of Academies. Academies need continual support and monitoring and should there be any future increase in Academies the staffing resource of the team will have to be further reviewed.

Primary schools are now starting to convert to Academies, which will have a further significant impact in Pensions and Payroll teams.

Outsourcing continues to add further demand on Pension Team resources and is an area not captured by performance indicators as it does not deliver a tangible, quantifiable benefit. The level of outsourcing by Academies has grown in the last year and seems likely to continue to grow. This adds to the work of the Pension Team which has to provide the necessary data for the Actuaries to calculate Bonds and employers rates. If the outsourced function is granted Admitted Body Status this drives further unplanned work to separate out the scheme employers and drive further administrative burden as the number of scheme employers increases.

With all the above pressures the Pension Team has been committed to providing a good quality pension service for stakeholders, in particular scheme members. Whilst the performance levels were variable and the volumes of work increasing, the number of complaints has been minimal.

Pension System

It was reported last year that the AXIS(e) pensions system had intermittent technical issues, these have been continuing. It was also reported that work was underway to procure a new system fit for the future. The system has now been procured and in December 2013 the Pension system will move from AXIS(e) to a fully hosted Altair system. Work is currently underway to set up the new system and migrate the pension data; this is being overseen by the Pension Project Manager.

Other

A new external employer database has been developed during this year by a Senior Pension Officer which is already assisting with streamlining the communication processes with external employers, delivering cost and time savings.

The membership of the Fund over the last five years is as follows:

	As at 31 March 2013	As at 31 March 2012	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
Contributors	5,755	5,878	6,155	6,157	5,723
Deferred pensioners	4,702	4,405	4,041	3,744	3,463
Pensioners and Dependants	5,453	5,253	5,065	4,951	4,746
	15,910	**15,536**	**15,261**	**14,852**	**13,932**

Those pensioners in receipt of enhanced benefits over the same five year period are as follows:

	As at 31 March 2013	As at 31 March 2012	As at 31 March 2011	As at 31 March 20109	As at 31 March 2009
Ill Health	14	16	12	8	14
Early Retirements	242	224	91	0	0

The age profile of members with five year bandings for the year ended 31 March 2013 follows:

AGE BANDS	ACTIVES	DEFERREDS	PENSIONERS (OWN RIGHT)	DEPENDANT PENSIONS	TOTAL BY AGE BAND
0-4	0	0	0	1	**1**
5-9	0	0	0	2	**2**
10-14	0	0	0	14	**14**
15-19	23	3	0	13	**39**
20-24	136	69	0	7	**212**
25-29	220	293	0	0	**513**
30-34	341	320	0	1	**662**
35-39	471	434	2	1	**908**
40-44	835	748	3	11	**1,597**
45-49	1,152	975	8	6	**2,141**

AGE BANDS	ACTIVES	DEFERREDS	PENSIONERS (OWN RIGHT)	DEPENDANT PENSIONS	TOTAL BY AGE BAND
50-54	1,151	933	31	18	**2,133**
55-59	881	784	157	31	**1,853**
60-64	421	134	894	58	**1,507**
65-69	107	8	1,175	77	**1,367**
70-74	17	1	784	92	**894**
75-79	0	0	667	139	**806**
80-84	0	0	494	172	**666**
85-89	0	0	266	152	**418**
90-94	0	0	87	55	**142**
95-99	0	0	16	16	**32**
100-104	0	0	0	3	**3**
TOTAL	**5,755**	**4,702**	**4,584**	**869**	**15,910**

Contributions to the Fund

Employees who were eligible to be members of the Fund prior to 31 March 1998 were required to make contributions by deductions from earnings at the rate of 6% for officer staff and 5% for manual staff. As from 1 April 1998, all new entrants to the Fund were required to pay 6% of earnings.

With effect from 1st April 2008 instead of paying a standard contribution rate, as mentioned above, different contribution rates for different pay bands was introduced. These new rates have been designed to give more equality between the cost and benefits of scheme membership. The new rates are between 5.5% and 7.5% of pensionable pay. The rate paid depends on which pay band the member falls into.

The Council is required to make balancing contributions as determined by the Fund's actuary to maintain the solvency of the Fund. The employers' contribution for the London Borough of Havering employees was 22% of salary in 2012/2013 (2011/12 22%). The Council's annual contribution is reviewed every three years. The latest review was based on data as at 31st March 2010 and effected employer contribution rates for 2011/12, 2012/13 and 2013/14. The next valuation will take place during 2013 and will be based on data as at 31 March 2013.

The payment of contributions by employers with external payrolls is monitored on a monthly basis by Pensions Administration. The Council receives a breakdown of individual employee contributions which is reconciled against the payments.

All new employers are given instruction and written guidance in the requirements of the Pension Administration team for making payments, timescales for payments and the reminder process in place. In advance of admittance to the scheme all new employers are informed of the employer contribution rates applicable and the required bond levels.

All admitted body employers are required to purchase a bond which protects the fund against default payments.

The monitoring of the payment of contributions identified 3 employers submitted contributions late, in each case it applied to only 1 month. The reminder process was put into action resulting in the receipt of the late contributions. The value of the late contributions in percentage terms was 0.11% of the total fund contributions. No interest charges for late contributions were applied due to the cost of levying the interest against the low level of interest rate applicable. If evidence of continued late payment were to arise interest would be levied as part of the reminder process.

The table below shows how many members were making contributions to the Fund together with the employers' contributions:

Contributing employers	**Active Members**	**Contributions from Members £**	**Contributions from Employers £**
London Borough Havering (including schools – non teaching staff only)	4,350	4,935,188	19,903,942
Havering College of Further & Higher Education	238	296,063	902,360
Homes in Havering (until 30 September 2012)	151	150,681	476,570
Havering sixth form college	80	72,231	188,223
Drapers Academy	36	51,583	119,820
Abbs Cross	47	37,329	129,729
Coopers Coborn	48	48,572	174,575
The Brittons Academy	78	56,121	182,989
Sacred Heart of Mary	46	30,207	117,897
Campion School	87	54,978	172,425
Hall Mead	85	52,832	178,242
St Edwards	72	68,585	232,100
Emerson Park Academy	42	40,909	137,333
Redden Court	50	46,337	166,258
The Albany Academy	39	32,423	117,128
Sports & Leisure Management	60	65,779	173,692
Morrisons (Mears)	28	55,443	225,643
Citizens Advice Bureau	2	5,159	31,788
KGB Cleaners	1	487	1,759
Volker	1	1,379	5,877
Family Mosaic	72	32,280	126,842
Innovate	5	1,774	6,292
Frances Bardsley	48	54,750	171,091
Upminster Infant School	24	3,763	21,448
Upminster Junior School	27	6,809	20,653
Bower Park	38	6,302	29,504
TOTAL	**5,755**	**6,207,964**	**24,014,180**

FINANCIAL PERFORMANCE

The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The Net Assets of the Fund have increased to **£461m** for 2012/13 from £404m in 2011/12, a net increase of £57m.

The net increase of £57m is compiled of a change in the market value of assets of £49m, investment income of £9.5m and offset by net withdrawals (cash) of (£0.4m) and offset by management expenses of (£1.1m). Further details are included within the Fund Account and net Asset Statement included in this report.

The Pensions Committee is supported by the administrating authorities' finance and administration services and the associated costs are therefore reimbursed to the administrating authority by the Fund in the form of a recharge. The budgets and outturn of the Administration costs are subject to budgetary controls within the Council's procedures.

Estimates for the medium term on Administration and Investment Management Expenses are as follows:

Administrative Expenses

	2011/12 Actual £000's	2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Administration & Processing	522	566	736	630	630
Actuarial Fees	9	30	30	30	30
Audit Fees	35	21	21	21	21
Other Fees	5	5	5	5	5
Other Costs	15	10	10	10	10
TOTAL	**586**	**632**	**802**	**696**	**696**

The Administration and Processing costs will increase from 2013/14 due to the purchase of an upgraded pension Administration system called ALTAIR from Heywood Limited. The contract is for five years but the 1st year costs include the implementation costs and an upfront licensing fee.

Investment Management expenses

	2011/12 Actual £000's	2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Administration, Management & custody	1,053	1,063	1,100	1,100	1,100
Performance Measurement services	12	12	12	12	12
Other Advisory Fees	73	72	70	70	70
TOTAL	**1,138**	**1,147**	**1,182**	**1,182**	**1,182**

Please note the following regarding the above figures

- Takes no account of any inflationary increases
- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2013/14 onwards.

- Based on 2012/13 fund and staffing structures.

Monitoring of pension overpayments, recoveries and amounts written off, including the results of participation in the 2012/13 National Fraud Initiative has now commenced and is being monitored on a quarterly basis.

In 2012/13 the recoverable overpayments of pension to deceased members of the scheme amounted to £7,817 of which £6,167 has so far been successfully recovered.

The Council has always subscribed to the National Fraud Initiative (NFI), for pensions this involves identifying any deceased members of the LGPS and any pension abatements not already known to the Pensions Administration Team. The result of this may lead to the recovery of overpayments of pension. The last exercise in 2010/11 revealed that here were a total of 243 matches reviewed of which there was one case identified not already known to the Team. One case matched a pension payment to a deceased person and we recovered £2,051.

RISK MANAGEMENT

Overall

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible.

Risks are identified and assessed in line with the Council's risk management process, with risks being identified within Service Plans.

Risk is also identified and managed within the Governance Compliance Statement, the Funding Strategy Statement and the Statement of Investment Policy and these processes are reviewed on an on-going basis.

A review is to take place in the coming year, with the aid of Internal Audit, to separately identify and evaluate the risks for the Havering Pension Fund which will be reported to the Pension Committee. As part of this review a Pension Fund Risk Register will be developed and maintained.

Investment Risk

The Fund has appointed an external Investment Advisor (Hymans) whose is advice is sought on investment matters and attends quarterly committee meetings where investment performance is reported for the Fund and for each individual fund manager.

Fund Managers

As a risk management tool, assurance is sought from the fund managers with regard to their own internal controls by reviewing their audited assurance reports (AAF 01/06 and SSAE16). Any exceptions highlighted by their auditors are evaluated by officers and our own external auditors.

Benefits Administration

In summary, the risks relating to Administration will be around the obligations to:

- Maintain accurate records;
- Pay benefits accurately; and
- Pay benefits on time as agreed with employers or under statute.

The main areas of risk are likely to be non-payment or late payment of members' benefits, incorrect calculation of members' benefits, breach of Data Protection or failure to comply with Disclosure of

Information requirements. Another growing area of risk that also need to be assessed and managed is that of fraud.

The impact of the above risks would be statutory fines, loss of reputation, adverse publicity and increased audit fees.

These risks will be addressed and mitigated in the Risk Register and Business Continuity Plan.

Business Continuity Plan

Services develop and maintain Business Continuity Plans, which deal with “disaster recovery” and include contingency measures. The ISS Business Continuity Plan identifies critical activities whose failure would lead to an unacceptable loss of service, and sets out measures to minimise the risk and disruption to service.

INVESTMENT POLICY AND PERFORMANCE REPORT

INVESTMENT POLICY

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements.

The Council has in place an Investment Strategy, which consists of two documents – The Statement of Investment Principles and the Funding Strategy Statement.

Statement of Investment Principles - The Fund each year publishes a Statement of Investment Principles (SIP) on the Councils web site in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005. This Statement sets out the Council's policy on a range of matters relating to investments, including the funds responsible investment policies and any environmental, social and governance issues and management of the pension fund. This is produced in conjunction with the Fund's investment advisors. In line with these regulations the administration authority also publishes a statement which shows the extent to which an administrative authority complies with guidance as issued by the Secretary of State. Where it does not comply, reasons for non-compliance must be disclosed. This is known as the Myners Principles and is published together with the SIP. A copy of the SIP and compliance against the Myners Principles can also be found in the appendices attached to this report.

Funding Strategy Statement – The fund also publishes a Funding Strategy Statement (FSS) in accordance with Regulation 76A of the LGPS Regulations 1997. This encompasses the aims and purposes of the fund and the overall investment strategy with its main purpose being how the pension liabilities are best met going forward. This is produced in conjunction with the Fund's actuary. A copy of the FSS can also be found in the appendices attached to this report.

In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets were placed with the Passive Equity Manager (State Street Global Assets) until a new Global Equity Manager was appointed. Baillie Gifford was awarded the mandate for Global equities in December 2011; assets were transferred from UK Equities (Standard Life), Investment Grade Bonds (Royal London) and the passive UK/Global Equities (State Street Global assets) managers. Baillie Gifford commenced trading in April 2012.

A review of the Fund's investment strategy was undertaken during 2012 and the allocation to the Absolute Return Manager (Ruffer) was increased, funded by reducing the allocation to the Passive UK/Global Equities Manager (State Street Global Assets).

The Fund's property manager (UBS) served a liquidation notice on the fund on the 1 January 2013; this was due to the increase in a number of redemption requests from the fund. The liquidation request was revoked in June 2013 when UBS received new investments from three UK Pension Funds and some existing clients withdrew redemption requests.

Further strategy implementation (including rebalancing) will be undertaken during 2013/14.

The Fund managers and the market value of assets under their management at the 31st March 2013 were as follows:

Manager	Mandate	Value £'000	Proportion of Total Fund %
Standard Life	Active UK Equities	85,693	18.7
Royal London	Active Investment Grade Bonds	98,302	21.5
UBS	Active Property	22,471	4.9
Ruffer	Absolute Return	64,531	14.1
State Street Global Assets	Passive UK/Global Equities	109,991	24.1
Baillie Gifford	Active Global Equities	76,297	16.7
	Other	48	0.0
	Total Fund	**457,333**	**100.00**

The Fund uses the services of State Street Bank who are the Fund's appointed custodians. They operate a wide range of services but are mainly responsible for the safekeeping and custody of the Fund assets and are responsible for Investment Accounting and Reporting. They ensure that accurate records and certificates of the ownership of stock are maintained and ensure that dividend income and other distributions are received appropriately. They also keep a record of the book costs in the various asset classes and provide a market valuation of the Fund. It is State Street's records that are used to produce the Fund's accounts.

The Fund subscribes to the CIPFA Pensions Network, which aims to support pension practitioners and is dedicated to pension fund bodies, offering services in relation to investment, audit, accounting, administration and governance.

Fund Manager Performance is reported to the Pensions Committee on a quarterly basis. Managers are required to present at the Pensions Committee every six months. On alternate quarters Fund managers meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset (Ruffer) and the passive equity (SSGa) managers who will attend two meetings per year, one with officers and one with the Pensions Committee. If there are any specific matters of concern to the committee relating to the manager's performance, arrangements can be made for additional presentations.

The Fund's investment advisors attend the quarterly Pensions Committee meetings and also produce a quarterly report, including fund manager performance and market commentary.

Voting rights exercised by the Fund managers is included in their quarterly reports and these are made available for the Pensions Committee to consider.

ASSET ALLOCATION

The main investment objective is to maximise the overall return on the Fund's investments from income and capital appreciation without high risk and to maintain the ready marketability of the portfolio to meet the fund's fluctuating cash requirements.

The movement in the asset allocations since the last annual report is shown in the table below. The asset allocation as at 31 March 2013 is also shown for comparisons.

Asset Class	Target Allocation as per SIP Nov 2011 %	Actual Asset Allocation March 2012 %	Interim Target Asset Allocation Dec 2012 %	Target Allocation as per SIP Mar 2013 %	Actual Asset Allocation March 2013 %
UK Equities - Active	17	}	}	}	}
Global Equities - Active	17	} 58	} 55	} 24	} 60
UK/Global Equities Passive	26	}	}	}	}
Investment Grade Bonds - Active	20	26	20	20	21
Property - Active	10	6	10	6	5
Absolute Return Multi Asset (All classes) - Active	10	10	15	15	14
Multi Asset Strategies	0	0	0	35	0
Total	**100**	**100**	**100**	**100**	**100**

During 2012/13 work continued to rebalance the Fund in line with November 2011 Statement of Investment Principles (SIP) and the Interim Strategy in December 2012:

- Following their appointment in December 2011, Baillie Gifford - Global Equity Manager commenced trading in April 2012. This was funded from withdrawing holdings from UK Equities, Bonds and the UK/Global Passive equities.
- In May 2012 funds were transferred from surplus cash to increase the holdings with the Property Manager.
- During 2012/13 the Fund undertook a full review of the SIP and whilst this was on-going members agreed an interim change to the strategy which would initially increase the asset allocation to the Absolute Return Manager from 10% to 15%. This was funded from reducing the asset allocation to the passive Global Equities Manager. The interim strategy was adopted in December 2012.
- The revised SIP was adopted on the 26 March 2013 and it was agreed that an allocation of 35% would be allocated to multi asset strategies and funded by a reduction in equities. The search for two multi asset strategy managers was started in April 2013 and it is anticipated that this will be completed by the end of September 2013. Once the multi-asset managers are appointed the actual asset allocation will reflect the March 13 SIP.

- The SIP was later revised in July 2013 to reflect a 3% allocation to local infrastructure.

Largest 10 Direct Asset Holdings in the Fund:

	Market Value at 31 March 2013 £m	Proportion of the total investment of the fund %
UK Treasury Index Linked Gilt - matures 2017	7.53	1.65
HSBC Holdings PLC	5.95	1.30
BP PLC	5.51	1.21
UK Treasury Index Linked Gilt - matures 2047	4.82	1.06
UK Treasury Index Linked Gilt - matures 2034	4.07	0.89
UK Treasury Index Linked Gilt - matures 2044	4.02	0.88
Vodafone Group PLC	3.91	0.86
Rio Tinto PLC	3.37	0.74
Swedish Government Bonds	3.29	0.72
UK Treasury Index Linked Gilt - matures 2032	3.26	0.71
Total	**45.73**	**10.02**

Largest 10 Equity Holdings in the Fund:

	Market Value at 31 March 2013 £m	Proportion of the total investment of the fund %
HSBC Holdings PLC	5.95	1.30
BP PLC	5.51	1.21
Vodafone Group PLC	3.91	0.86
Rio Tinto PLC	3.37	0.74
Barclays PLC	3.21	0.70
GlaxoSmithKline PLC	2.93	0.64
Royal Dutch Shell PLC	2.72	0.60
Gold Bullion Securities Ltd	2.56	0.56
GKN PLC	2.46	0.54
BG Group PLC	2.36	0.52
Total	**34.98**	**7.67**

In addition to the above holdings the Fund also invests in the UBS Triton Property Fund. This is a pooled property fund which means that the Fund pool their assets with other investors in 'unit trusts', the Fund does not hold any direct property holdings. The value of the property unit trusts as at 31 March 2013 is £22.47m (including cash). The Fund also invests in a pooled UK and Global equity fund, the value of which is £109.99m.

INVESTMENT PERFORMANCE

The Fund uses the services of The WM Company to provide comparative statistics on the performance of the Fund. The performance of the Fund is measured against a tactical and a strategic benchmark.

The tactical benchmark is a combination of all the individual benchmarks set for each manager and is determined according to the type of investments being managed.

Individual manager performance and asset allocation will determine the performance against the strategic benchmark. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 1.8% (net of fees) p.a.

The main factor in meeting the strategic benchmark is market performance. The main factor in meeting the tactical benchmark is fund manager performance.

The following table shows the overall net performance of the Fund:

	1 year to 31.03.12 %	1 year to 31.03.13 %	3 Years to 31.03.13 %	5 years to 31.03.13 %
Fund Return	4.2	14.4	8.2	5.6
Tactical Benchmark	4.8	13.1	8.8	7.1
Performance	-0.6	1.1	-0.5	-1.4
Fund Return	4.2	14.4	8.2	5.6
Strategic Benchmark	25.5	11.2	15.3	12.0
Performance	-16.9	2.9	-6.1	-5.7

A geometric method of calculation has been used in the above table and consequently this does not sum

In 2012/13, the overall return on the Fund's investments was 14.4% (2011/12 4.2%). This represented an out performance of 1.1% against the tactical benchmark (2011/12 under performance of -0.6%) and an out performance of 2.9% against the strategic benchmark (2011/12 under performance of -16.9%).

Fund Manager Performance is measured against benchmarks and targets as follows:

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target (net of fees)
Standard Life	UK Equities – Active	FTSE All Share Index	2%
State Street Global Advisors	UK/Global - Passive Equities	UK - FTSE All Share Index Global (Ex UK) – FTSE all World ex UK	To track the benchmark
Baillie Gifford	Global Equities - Active	MSCI AC World Index	1.5% - 2.5% over rolling 5 year period
Royal London Asset Management (RLAM)	Investment Grade Bonds - Active	• 50% iBoxx Sterling Non Gilt Over 10 Year Index. • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	0.75%
UBS	Property -Active	IPD All Balanced Funds Median Index	To outperform the benchmark
Ruffer LLP	Alternatives- Multi Asset - Active	Not measured against any market index – for illustrative purposes LIBOR (3 months)+4%	To outperform the benchmark

The following table compares each Fund Manager performance against their specific benchmark and their performance target for the twelve months ending 31 March 2013:

	Standard Life	Royal London	UBS	Baillie Gifford	Ruffer	State Street
Return (performance)	17.2	13.9	(11.2)	n/a	10.0	17.0
Benchmark	16.8	12.7	0.3	n/a	0.7	17.1
***Over/(Under) Performance vs. Benchmark**	**0.4**	**1.2**	**(11.5)**	**n/a**	**9.3**	**(0.1)**
TARGET	18.8	13.4	n/a	n/a	n/a	n/a
*** Over/(Under) Performance vs. Target**	**(1.6)**	**0.4**	**n/a**	**n/a**	**n/a**	**n/a**

- *The figures in the above table are geometric calculations and consequently may not sum.*

- *Baillie Gifford inception date 25 April 2012*

Performance against benchmark is only measured at Fund Manager level. Performance is not measured against the asset classes as mandates allocated to Fund Managers mainly match the asset classes.

The London Borough of Havering as a scheme employer review LGPS bandings on an annual basis each April, therefore promotions and demotions do not affect contribution rates till the following year.

The payment of contributions by employers with external payrolls is monitored on a monthly basis by Pensions Administration. The Council receives a breakdown of individual employee contributions which is reconciled against the payments.

All new employers are given instruction and written guidance in the requirements of the Pension Administration team for making payments, timescales for payments and the reminder process in place. In advance of admittance to the scheme all new employers are informed of the employer contribution rates applicable and the required bond levels.

All admitted body employers are required to purchase a bond which protects the fund against default payments.

The monitoring of the payment of contributions identified 3 employers submitted contributions late, in each case it applied to only 1 month. The reminder process was put into action resulting in the receipt of the late contributions. The value of the late contributions in percentage terms was 0.11% of the total fund contributions. No interest charges for late contributions were applied due to the cost of levying the interest against the low level of interest rate applicable. If evidence of continued late payment were to arise interest would be levied as part of the reminder process.

SCHEME ADMINISTRATION REPORT

OVERVIEW

The Pensions Committee is supported by the administrating authorities' finance and Pension Administration Team (Internal Shared Services) and the associated costs are therefore reimbursed to the administrating authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts.

The Administration costs charged to the Fund for the year ending 31 March 2013 is £632,095 (includes audit and actuary fees).

The Council's pension administration section is responsible for all aspects of the Scheduled (including Academies) and Admitted body scheme membership including payment of benefits, processing joiners and leavers, record amendments, scheme employers returns, monitoring and administration of the Council's Additional Voluntary Contributions (AVC) scheme

The Pensions Administration service consists of an establishment of 9.17 full time equivalent posts.

The key day to day functions of the unit are:

- Processing new members of the scheme
- Dealing with requests from members who wish to transfer their pension into or out of Havering's Fund
- Administering death benefits for scheme members
- Bringing pensions into payment on retirement or early retirement
- Providing estimates for members/managers
- Assisting members who wish to increase their pension provision through AVC's or ARCs (replaces added years and is to provide added pension)
- Processing leavers with a refund of contributions or deferred benefits
- Updating the pensions computer system with changes to members details
- Reviewing and monitoring 3rd tier ill-health retirements
- Monitoring and recording scheduled and Admitted body contributions for bodies that do not utilise the Havering payroll
- Supporting outsourcing and Academies
- Bi-annual National Fraud Initiative (NFI) compliance
- Ensuring continual data cleansing in preparation for the next scheme valuation
- Preparation for auto-enrolment
- Preparation for the introduction of the 2014 scheme changes

The Finance service that supports the Fund consists of an establishment of 1.5 full time equivalent posts.

Havering has continued to have a close working relationship with the London Borough of Redbridge. Redbridge currently host and support the AXIS(e) system used for pensions administration. We also share newsletters and the "pension scheme members" website.

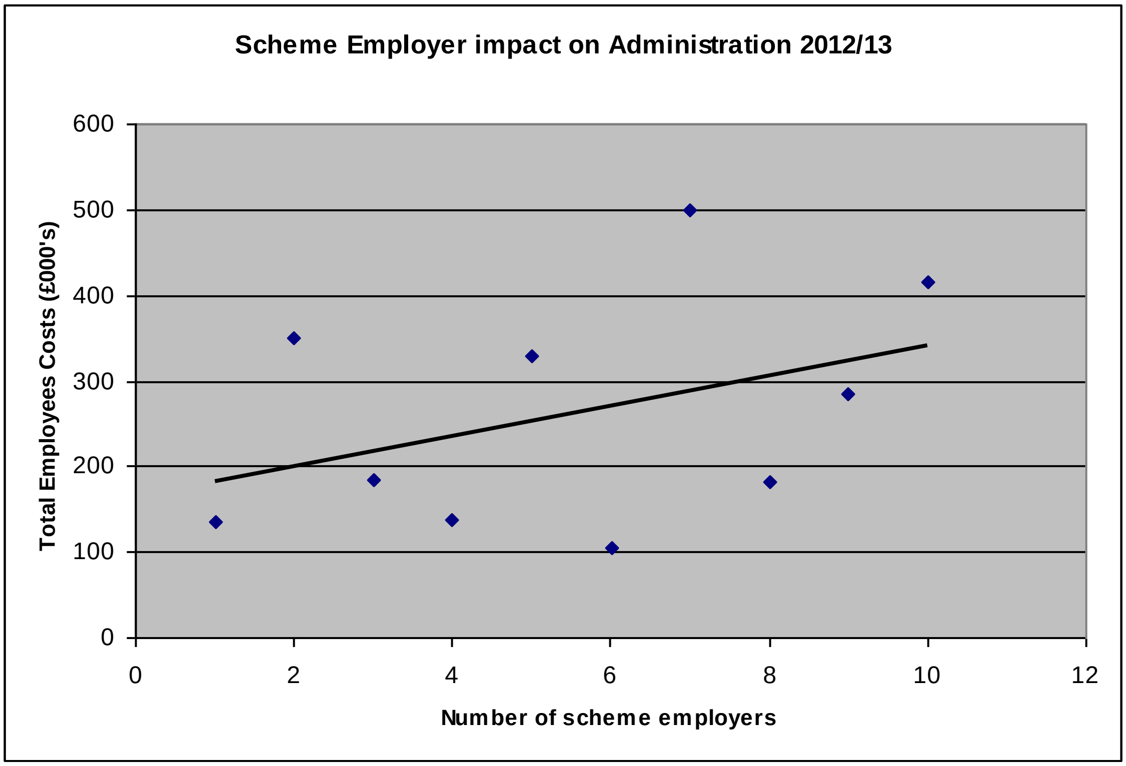
Havering was leading on the work agreed as part of the London Centre of Excellence project, on the production of performance indicators (PIs) for Pensions Administration across London. The PIs were collected for the first time in 2007/08 and Havering, until 2012/13 had been co-ordinating all the statistics to produce an inaugural London wide picture on performance in Pensions Administration. Due to declining interest by other boroughs this work has now ceased.

Havering continues to undertake partnership working with the London Pension Fund Authority which has developed a “pension scheme members” website for the borough, to assist in its pension sharing across London. This website holds information on the LGPS including previous newsletters, a scheme guide and various factsheets. A review of functionality of the website has led to website improvements, and work on incorporating member self-service into their own pension record will be developed at a later stage.

The business case to procure an upgraded pensions administration system has been completed and the Administration will move from the AXIS(e) system currently used to a hosted Altair system which will better support the additional functionality post the 2014 pension changes.

Pensions Administration has participated in the CIPFA Benchmarking Club again this year. The results of the benchmarking demonstrate that the cost of administration for this borough is £30 per member against a London Authorities average of £26 per member. 2012/13 has been impacted by bringing in additional staff to support the Pension Team in data cleansing ahead of the triennial valuation, together with the costs of the fixed term post coordinating major projects. The major projects include preparation for Automatic Enrolment (costs met from the General Fund), procuring the new pension system (implementation will take place during 2013/14), and preparation for the CARE scheme 2014. The CARE scheme 2014 work to date has included reviewing the impact of the Public Sector Pension Bill, responding to consultations to shape the scheme and preparing the pension website in readiness for the necessary member tools and communications. During the year 2013/14 and beyond supporting the change to the CARE scheme 2014 will have a significant impact upon team resources.

An area of significant growth since 2011 has been the expansion of Academies and admitted bodies. The increase in scheme employers has a direct impact upon increasing the administrative support for scheme employers and monitoring of scheme employers. From 2011 to 31st March 2013 there have been 13 new Academies formed, yet during this period the core Pensions Team has reduced from 9.68 FTE to 9.17 FTE. The CIPFA benchmarking demonstrates that there is a positive correlation between staffing levels and scheme employers supported (see chart below).



The impact of the reduction in the core team staffing, increase in scheme employers, increased volumes of work, and staff turnover in the team has directly impacted upon the overall performance of the team as discussed in the Management Performance section above.

The new pension administration system will aid member self-service. There are also plans to procure a pension system add-on which interfaces with employer systems, together with providing management tools for managing team workflow. The benefits of self service and improved data interfacing are that team members will be able to prioritise work that delivers added value and meet performance targets.

Internal Dispute Resolution Procedure (IDRP)

Any Internal disputes goes firstly to the Council's Actuaries and then to the Pensions Panel which comprises of Heads of Services from Internal Shared Services, Finance and Legal. The Team Leader for Pensions Administration sits on the panel in an advisory role.

There were no cases taken to IDRP in 2012/13.

Whistle Blowing

The Pension Fund complies with the whistle blowing requirements of the Pension Act that came into force on the 6 April 2005. It urges anyone to inform the correct authorities of any known wrong doings. The process for reporting breaches of the law to the Pension's Regulator is available on the council's website at: www.havering.gov.uk and follow the links 'Council and Democracy', 'Pension Fund'.

No breaches were reported during 2012/13.

ACTUARIAL REPORT ON FUNDS

London Borough of Havering Actuarial Statement for 2012/13

London Borough of Havering Pension Fund ("the Fund")

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the London Borough of Havering Funding Strategy Statement (FSS), dated February 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £361 million, were sufficient to meet 61.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £228 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Havering, administering authority to the Fund.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 30 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.3%	3.0%
Pay increases *	4.8%	1.5%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11, 2011/12 and 2012/13, 3.3% for 2013/14 and 2014/15 before reverting to 4.8% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.6 years
Future Pensioners *	23.8 years	26.5 years

* Future pensioners are assumed to be age 45 currently.

Experience over the period since April 2010

The funding level is likely to have worsened since the latest formal funding valuation.

There have been significant falls in Government bond yields and to market expectations for long term inflation. The drop in bond yields is greater than the decrease in inflation expectations. The result is a decrease to the discount rate net of inflation which places a higher value on the liabilities.

Although total investment returns since the latest formal funding valuation have been higher than the long term assumption made at the 2010 valuation, this would only partially offset the impact the lower net discount rate has on the deficit.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Steven Law
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
22 October 2013

GOVERNANCE COMPLIANCE STATEMENT overview

Governance Compliance Statement

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008, administering authorities are required to prepare publish and maintain statements of compliance against a set of practice principles on scheme governance and stewardship.

The Governance Compliance Statement sets the following:

- Arrangements for delegation of decisions regarding the Fund
- Terms, structure and procedures of the delegation
- Frequency of meetings
- Whether there are representatives of employing authorities

The compliance principles are not mandatory but suggested best practice; however the Fund must explain the reasons for non compliance if applicable in the statement.

This statement can be found in the appendices at the back of the report.

The Governance Compliance statement is also available on the Council's website at www.havering.gov.uk. (Within 'Council and Democracy', 'Pension Fund').

MEMBER INVOLVEMENT

Training and Development

In January 2010 CIPFA launched as good practice guidance a Knowledge and Skills Framework that Pension Funds could voluntary adopt as a useful tool in identifying the Knowledge and Skill levels and development needs of officers and members of their decision making bodies.

As demonstration of good practice, users of the framework could make a voluntary statement in the Pension Fund Annual Report that covers:

- How the framework has been applied
- What assessment of training needs has been undertaken
- What training has been delivered against the identified training needs.

As part of on-going developments of the framework CIPFA then produced a Code of Practice to put the Knowledge and Skills requirements into a more formal structure.

The Code of Practice was introduced in October 2011 with its application commencing from financial years beginning 1 April 2012. The statement follows:

The London Borough of Havering, as an Administrating Authority of the LGPS, recognises the importance of ensuring that all staff and members charged with the financial management and decisions making with regard to the pension scheme are fully equipped with the Knowledge and Skills to discharge those responsibilities.

The Council's Constitution recommends that the membership of the committee remains static for the life of the Council unless exceptional circumstances require a change, for the very reason that Members need to ensure that expertise is developed and maintained within. In recognition of the importance of member training in pension matters the Council's Constitution was amended in March 2012 to reflect that if members do not undertake required training then that member may not partake in the decision making process.

It is important that all the Members of the Committee are adequately trained and briefed to make effective decisions and that members are aware of their statutory and fiduciary responsibilities and achieve the terms of reference of this Committee which are:

- To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7,12 or 24 of the Superannuation Act 1972.

Training and development took place during 2012/13 to ensure that Members of the Committee were fully briefed in the decisions they were taking at the time and a log of training and development is maintained and follows this statement.

CIPFA's knowledge and Skills self-assessment training questionnaire was distributed to members in January 2011. Training needs were assessed on an individual basis and took account of members' existing expertise in specific areas. The common training requirements identified from these questionnaires covered the following areas:

- <u>Investment Strategy – more awareness of the limits placed by regulations on investments within the LGPS.</u>
  This training covered more than one session and took place throughout the investment Strategy process during 2012/13.

- <u>Outsourcing – pension considerations in relation to outsourcing and Bulk transfers.</u>
  The Outsourcing Training took place in October 2012.

- <u>Scheme specific legislation – more knowledge on the features covering the main features of the benefit side of the LGPS.</u>
  Training regarding the benefits side of the LGPS will take place when the new LGPS scheme is introduced from April 2014 and will fit in timely with any new members appointed to the Committee following Local Elections in June 2014.

A full listing of training and development that took place during 2012/13 follows this statement.

Members also receive briefings and advice from the Fund's Investment adviser at each committee meeting.

The Fund uses the three day training courses offered by the Local Government Employers (LGE) which is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

New member inductions, Knowledge and Skills self-assessment and training will also take place following the Local Authority elections in 2014.

The Fund is a member of the CIPFA Pensions network which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

The Pension Fund Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

Training logs are maintained and attendance and coverage in the table that follows:

Pension Committee Member Training and development 2012/13:

DATE	TOPIC COVERED	ATTENDED BY
30 May 2012	Baillie Gifford – 'Global Investor Roundtable' – our newly appointed Global Equity Manager explaining longer term investment opportunities	Cllr Wallace
14 June 2012	CIPFA – Delivering Training on 'Introduction to the LGPS', covered key themes: • Background, Regulations and Governance of the LGPS • Managing Scheme Liabilities • Audit and Accounting Requirements Developing investment Strategies	Cllr Murray Cllr Breading Cllr Wallace
26 June 2012	Pensions overview delivered by Pension Fund Accountant	Cllr Bennett
27 June 2012	Hymans – Fund's Advisor delivering training on Investment Strategy Review – covered: • Understanding the importance of an investment strategy • Why periodic review is sensible • How a review may be undertaken and included issues to consider and include.	Cllr Bennett Cllr Ramsey Cllr Galpin John Giles (UNISON) Andy Hampshire
6 September 2012	Pensions overview delivered by Pension Fund Accountant	Cllr Pat Murray
18/20 September 2012	Briefing sessions on Statement of Accounts (inclu, Pension Fund) – delivered by Mike Board and Debbie Ford	Cllr Galpin Cllr Ramsey Cllr Breading Cllr Murray
02 October 2012	Hymans- Fund's actuary delivered training covering: • Pensions issues, impact on Transferring Local Government Employees (Admitted Bodies)	Cllr Galpin Cllr Wallace Cllr Ramsey Cllr Bennett Cllr Ower Cllr Murray (part) John Giles (UNISON
01 November 2012	Infrastructure roundtable – delivered by Partners Group	Cllr Wallace Cllr Munday
16 November 2012	Ruffer conference	Cllr Wallace Cllr Munday Cllr Ramsey
27 November 2012	Hymans – Fund's Advisor delivering follow up training on Investment Strategy Review - covered: • Objectives and initial conclusions • Understanding the current issues (low yields, weak funding level, stagnant economic conditions and negative cash flow • Strategy Proposals – up for discussion	Cllr Wallace Cllr Ramsey Cllr Murray Cllr Ower Cllr Galpin John Giles (UNISON) Marilyn Clay (employer representative)

Key reports arising in the period
All the pension committee agenda and minutes can be found on the Council's website at: www.havering.gov.uk and follow the links 'council and democracy', 'meetings', 'pensions committee'.

The Committee met a number of times during 2012/13 and the coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
27 June 2012	• Noted the Fund's External audit Plan for the 2011/12 accounts • Pension Fund Performance Monitoring for the quarter ending 31 March 2012 • Agreed the adaptation of an internal Pension fund Cash Management Policy.	Cllr Becky Bennett (chair) Cllr Georgina Galpin (sub for Melvin Wallace) Cllr Roger Ramsey John Giles (UNISON) Andy Hampshire (GMB)
30 August 2012 (SPECIAL)	• Agreed to admit Innovate to the Pension Fund	Cllr Melvin Wallace Cllr Eric Munday Cllr Georgina Galpin (sub for Roger Ramsey) Cllr Pat Murray Andy Hampshire (GMB)
25 September 2012 (SPECIAL)	• Considered and noted the 2011/12 unaudited accounts	Cllr Becky Bennett (chair) Cllr Georgina Galpin (sub for Melvin Wallace Cllr Eric Munday Cllr Steven Kelly (sub for Roger Ramsey) Cllr Denis Breading (sub for Pat Murray) John Giles (UNISON) Andy Hampshire (GMB)
02 October 2012	• Noted the Business Plan/Annual Report on the work of the Pensions Committee 2011/12 • Pension Fund Performance Monitoring for the quarter ending 30 June 2012 • Noted the initial analysis of Investment Strategy Review	Cllr Melvin Wallace (chair) Cllr Becky Bennett (vice chair) Cllr Georgina Galpin (sub for Eric Munday) Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray John Giles (UNISON)
31 October 2012	• Reviewed Pension Fund's Governance Compliance Statement 2012 • Noted Whistleblowing Report • Reviewed the services of the Pension fund Actuary • Reviewed the services of the Pension Fund Custodian • Reviewed the services of the Pension fund Investment Advisor • Agreed Pension Fund Annual Report – Year ended 31 March 2012	Cllr Melvin Wallace (chair) Cllr Becky Bennett (vice chair) Cllr Eric Munday Cllr Roger Ramsey Cllr Clarence Barrett (sub for Ron Ower) Andy Hampshire (GMB)
27 November 2012 (SPECIAL)	• Discussed the analysis and modelling for the Investment Strategy Review • Considered the DCLG consultation 'Investment in Partnership' which sought views in whether any regulation changes were required to remove barriers preventing pension funds investing in infrastructure	Cllr Melvin Wallace (chair) Cllr Georgina Galpin (sub for Eric Munday) Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray John Giles (UNISON) Marilyn Clay – employer representative as

		observer

DATE	TOPIC	ATTENDED BY
12 December 2012	• Pension Fund Performance Monitoring for the quarter ending 31 September 2012 • Noted the impact of Auto Enrolment • Agreed Interim amendment to Statement of Investment Policy	Cllr Melvin Wallace (chair) Cllr Georgina Galpin (sub for Becky Bennett) Cllr Eric Munday Cllr Roger Ramsey Cllr Clarence Barratt (sub for Ron Ower)
26 March 2013 (Earlier start time of 6:30pm)	• Pension Fund Performance Monitoring for the quarter ending 31 December 2012 • Noted Automatic Enrolment implementation progress • Considered and agreed the Communication Strategy 2013-2015 • Considered Briefing report on impact of the Public Services Pensions Bill • Agreed the Statement of investment Principles	Cllr Melvin Wallace (chair) Cllr Fred Thompson (sub for Becky Bennett) Cllr Eric Munday Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray observer until 7:45pm Cllr Denis Breading (sub for Pat Murray from 7:45pm) John Giles (UNISON) Andy Hampshire (GMB)

The fund has adopted a Business Plan/Report on the work of the Pensions Committee which also sets out the work undertaken by the Committee during 2012/13 and the plan of work for the following year (2013/14).This also includes a Training and Development Plan which is linked to the Pension Fund Coverage of meetings.

Full coverage of the Pensions Committee work and training plan can be found on the Council's website: www.havering.gov.uk within 'Services' 'Council, Democracy and Elections', 'council budgets & spending' 'Pension Fund')

CONFLICT OF INTEREST

At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. During 2012/13 there were no conflicts of interests declared.

FUND ACCOUNT AND NET ASSETS STATEMENT

Havering Pension Fund Account for the year ended 31st March 2013

2011/12 £'000		Note	2012/13 £'000
	Contributions and benefits		
30,286	Contributions	3	30,222
2,637	Transfers in from other pension funds	4	3,706
32,923			**33,928**
(31,215)	Benefits	5	(31,272)
(2,581)	Payments to and on account of leavers	6	(2,423)
(586)	Administration expenses	7	(632)
(34,382)			**(34,327)**
(1,459)	**Net additions / (withdrawals) from dealings with members**		**(399)**
	Returns on Investments		
(1,138)	Investment Management Expenses	8	(1,147)
8,360	Investment income	9	9,518
9,108	Profit and losses on disposal of investments and changes in the market value of investments	10	49,098
16,330	**Net returns on investments**		**57,469**
14,871	**Net Increase in the net assets available for benefits during the year**		**57,070**
388,634	Net assets of the Fund at start of year		403,505
403,505	**Net assets of the Fund at end of year**		**460,575**

Net Asset Statement as at 31 March

2012 £'000		Note	2013 £'000
406,792	Investment Assets	11	459,162
(4,473)	Investment Liabilities	11	(1,829)
1,695	Current Assets	12	3,709
(509)	Current Liabilities	13	(467)
403,505	**Net assets of the fund available to fund benefits at end of the year**		**460,575**

The financial statements summarise the transactions of the Fund and the net assets of the Fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 20 of these accounts.

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

2. Summary of Significant Accounting Policies

Fund Account - revenue

(a) Contribution income
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. This is then broken down to show the amount allocated for the deficit funding (past service costs).

Pension strain contributions (augmentation) are accounted for in the period in which the liability arises.

(b) Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see note 4 and 6).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

(c) Investment Income
i) Interest income
Interest income is recognised in the fund as it accrues.
ii) Dividend income
Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an Investment asset.
iii) Distribution from pooled funds
Distributions from pooled funds are recognised at the date of issue.
Iv) Property- related income
Property related income consists primarily of rental income and are recognised at the date of issue.
v) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

(d) Benefits payable
Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts unpaid are disclosed in the net assets statement as current liabilities.

(e) Taxation
The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

(f) Administrative expenses
All administrative expenses are accounted for on an accruals basis. The majority of staff costs of the pension's administration team have been charged to the scheme. Management, accommodation and other overheads are apportioned to the fund in accordance with Council policy.

(g) Investment management expenses
All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

For officers' time spent on investment management functions; a proportion of the relevant officers' salary costs, including related on-costs, have also been charged to the Fund.
Net Assets Statement

(h) Financial assets
Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
(ii) Fixed interest securities
Fixed interest securities are recorded at net market value.
(iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:
- Investments in private equity funds are valued on the fund's share of the net assets in the private equity fund.
(iv) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(i) Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

(j) Derivatives
The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year-end with an equal and opposite contract.

(k) Cash and cash equivalents
Cash comprises cash in hand.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

(l) Financial Liabilities
The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

(m) Actuarial present value of promised retirement benefits
The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

(n) Additional Voluntary contributions
AVC's are not included in the accounts in accordance with section 492) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 3).

Stock Lending
We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, State Street Global Assets, who carry out stock lending as part of the funds activities. It is not possible to allocate a share of the stock lending activity to individual fund members. The lending programme is managed by State Street Securities Finance (SSSF), a division of State Street's Global Markets area. At present, lending is collateralised by non-cash collateral and marked to market on a daily basis. Revenue generated from securities is allocated 60% to the pooled fund in respect of investors and 40% to State Street, which pays all costs associated with the lending programme.

3. Contributions

	2012/13 £'000	2011/12 £'000
Employers		
Normal:		
Havering	11,053	11,322
Scheduled Bodies	3,519	3,421
Admitted Bodies	572	541
Deficit funding:		
Havering	8,647	6,994
Augmentation:		
Havering	204	1,083
Scheduled Bodies	19	63
Admitted Bodies	0	499
Employer Total	**24,014**	**23,923**
Members		
Normal:		
Havering	4,870	5,029
Scheduled bodies	1,094	1,060
Admitted bodies	161	150
Additional contributions:		
Havering	66	96
Scheduled bodies	16	27
Admitted bodies	1	1
Members Total	**6,208**	**6,363**
	30,222	**30,286**

Note: Some employees made additional voluntary contributions (AVC's) of £64,785 (£80,030 11/12) excluded from these statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2012/13 were £54,571 to the Prudential and £10,214 to Standard Life.

4. Transfers in from other pension funds

	2012/13 £'000	2011/12 £'000
Individual transfers in from other schemes	3,706	2,637

5. Benefits

	2012/13 £'000	2011/12 £'000
Pensions		
Havering	23,675	22,274
Scheduled Bodies	641	483
Admitted Bodies	384	278
Pension Total	**24,700**	**23,035**
Commutation & Lump Sum Retirements		
Havering	4,784	5,773
Scheduled Bodies	339	562
Admitted Bodies	178	868
Commutation Total	**5,301**	**7,203**
Lump sum death benefits		
Havering	1,093	610
Scheduled Bodies	102	270
Admitted Bodies	76	97
Death Benefits Total	**1,271**	**977**
	31,272	**31,215**

6. Payments To and On Account of leavers

	2012/13 £'000	2011/12 £'000
Refunds to members leaving service	1	2
Individual transfers to other schemes	2,422	2,579
	2,423	**2,581**

7. Administrative Expenses

	2012/13 £'000	2011/12 £'000
Administration & Processing	566	522
Actuarial Fees	30	9
Audit Fees	21	35
Other Fees	5	5
Other Expenses	10	15
	632	**586**

8. Investment management expenses

	2012/13 £'000	2011/12 £'000
Administration, management and custody	1,063	1,053
Performance measurement services	12	12
Other Advisory Fees	72	73
	1,147	**1,138**

9. Investment Income

	2012/13 £'000	2011/12 £'000
Equity dividend	3,362	3,700
Fixed Interest securities	**3,663	*4,137
Pooled property income	1,421	1,260
Foreign Exchange (Losses) / Profits	978	(791)
Interest on Cash & Deposits	12	54
Other income	82	0
Total Income	**9,518**	**8,360**

***** Income includes Index linked Interest of £532k

** Income includes index Linked Interest of £404k

10 (a). Reconciliation of movements in investments & derivatives 2012/13

	Market Value at 31st March 2012 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Cash & Other Movements £'000	Market Value at 31st March 2013 £'000
Equities	104,209	92,538	(69,656)	11,644	(31,334)	107,401
Fixed interest Securities	70,854	75,981	(85,351)	5,491	(1,469)	65,506
Index-linked Securities	46,660	173,141	(172,307)	4,578	1,469	53,541
Pooled Investment Vehicles	175,456	7,787	(922)	28,284	12,391	222,996
Derivatives	516	-	-	(903)	-	(387)
Cash instruments	673	9,452	(9,070)	-	-	1,055
Cash deposits (fund managers)	3,231	-	-	-	2,488	5,719
	401,599	**358,899**	**(337,306)**	**49,094**	**(16,455)**	**455,831**
Short term investments	-	-	-	-	-	-
Other Investment Balances	720	-	-	4	778	1,502
	402,319	**358,899**	**(337,306)**	**49,098**	**(15,677)**	**457,333**

10 (b). Reconciliation of movements in investments & derivatives 2011/12

	Market Value at 31st March 2011 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Cash & Other Movements £'000	Market Value at 31st March 2012 £'000
Equities	96,138	38,337	(24,975)	(5,291)	-	104,209
Fixed interest Securities	76,134	103,666	(111,287)	5,201	(2,860)	70,854
Index-linked Securities	37,255	279,301	(281,406)	8,650	2,860	46,660
Pooled Investment Vehicles	165,765	12,325	(2,516)	(118)	-	175,456
Derivatives	(164)	-	-	680	-	516
Cash instruments	-	8,867	(8,194)	-	-	673
Cash deposits (fund managers)	2,655	-	-	-	576	3,231
	377,783	**442,496**	**(428,378)**	**9,122**	**576**	**401,599**
Short term investments	8,495	-	-	-	(8,495)	-
Other Investment Balances	2,243	-	-	(14)	(1,509)	720
	388,521	**442,496**	**(428,378)**	**9,108**	**(9,428)**	**402,319**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The cash and other movements include assets that were transferred between fund managers as part of the investment restructuring.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year as supplied by the Fund's custodian amounted to £318,000 (2011/12 £201,591). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

11. Analysis of investments

	2012/13 £'000	2011/12 £'000
Investment Assets		
Equities		
UK Quoted	89,525	91,511
Overseas quoted	17,876	12,698
	107,401	**104,209**
Fixed Interest Securities		
UK Public sector	7,512	9,716
UK Private (corporate)	56,197	59,671
Overseas Public sector	1,797	1,467
	65,506	**70,854**
Index-Linked Securities		
UK Public sector	40,681	36,887
UK Private (corporate)	660	575
Overseas Public sector	12,200	9,198
	53,541	**46,660**
Derivative Contracts		
Forward FX Contracts	130	539
	130	**539**
Pooled Investment Vehicles		
UK Managed Funds		
UK Quoted	199,566	147,750
UK Unquoted	20	22
Overseas	620	1,111
Property	1,248	981
UK Unit Trust		
UK Property	21,542	25,592
	222,996	**175,456**
Cash Instruments		
UK	1,055	673
	1,055	**673**
Cash Deposits		
Managers	5,719	3,231
	5,719	**3,231**
Outstanding Sales	816	3,004
Investment Income	1,160	1,325
Outstanding dividend and recovered tax	836	841
Investment Income due	2	0
	2,814	**5,170**
Total Investment Assets	**459,162**	**406,792**

11. Analysis of investments (Cont'd)

	2012/13 £'000	2011/12 £'000
Investment Liabilities		
Derivative Contracts		
Forward FX Contracts	(517)	(23)
Outstanding purchases	(1,312)	(4,448)
Investment Income Due		(2)
Total Investment Liabilities	**(1,829)**	**(4,473)**
Total Net Investments	**457,333**	**402,319**

12. Current Assets

	2012/13 £'000	2011/12 £'000
Pension Grants	9	13
Contributions due from Employers	168	378
Contributions due from members	58	109
Cash deposit with LB Havering	3,474	1,195
Current Assets	**3,709**	**1,695**

Analysis of Debtors

	2012/13 £'000	2011/12 £'000
NHS bodies	9	13
Public corporation and trading funds	168	378
Other entities and individuals	58	109
LB Havering	3,474	1,195
Total	**3,709**	**1,695**

13. Current Liabilities

	2012/13 £'000	2011/12 £'000
Unpaid Benefits	(166)	(178)
Accrued Expenses	(301)	(331)
Current Liabilities	**(467)**	**(509)**

Analysis of Creditors

	2012/13 £'000	2011/12 £'000
Other entities and individuals	**(467)**	**(509)**
Total	**(467)**	**(509)**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the fund. The use of derivatives is managed in line with the investment management agreement agreed between the fund and various investment managers.

Forward foreign currency

The fund currently has exposure to forward currency contracts and the purpose of this is to reduce the fund's exposure to fluctuations in exchange rates. A breakdown of forward contracts held by the fund as at 31 March 2013 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value £'000	Currency sold	Local Value £'000	Asset Value (Unrealised Gain) £'000	Liability Value (Unrealised loss) £'000
Up to one month	GBP	219	JPY	31,259	0	0
Up to one month	GBP	232	JPY	33,100	0	0
Up to one month	GBP	4.316	JPY	619,110	0	(21)
Up to one month	GBP	1,792	JPY	260,930	0	(36)
Up to one month	GBP	146	USD	221	1	0
Up to one month	GBP	3	USD	5	0	0
Up to one month	GBP	506	AUD	738	0	0
Up to one month	GBP	346	AUD	504	0	0
Up to one month	GBP	949	EUR	1,140	0	(15)
Up to one month	GBP	1,003	SEK	10,844	0	(95)
Up to one month	GBP	1,048	SEK	10,919	0	(57)
Up to one month	GBP	1,052	SEK	10,906	0	(52)
Up to one month	GBP	1,064	SEK	10,372	13	0
Up to one month	GBP	896	USD	1,460	0	(66)
Up to one month	GBP	469	USD	755	0	(29)
Up to one month	GBP	3	USD	5	0	0
Up to one month	GBP	1,056	USD	1,198	4	0
Up to one month	JPY	2,952	GBP	422,300	6	0
Up to one month	CAD	63	GBP	100	2	0
Up to one month	EUR	57	GBP	70	2	0
Up to one month	EUR	932	GBP	1,101	0	(1)
Up to one month	EUR	46	GBP	53	0	(1)
Up to one month	SEK	1,024	GBP	10,800	70	0
Up to one month	USD	486	GBP	752	9	0
Up to one month	USD	239	GBP	370	4	0
Up to one month	USD	3	GBP	5	0	0
Up to two months	GBP	5,593	USD	8,710	0	(144)
Up to three months	GBP	556	635	635	19	0
Gross Open forward currency contracts at 31 March 2013					**130**	**(517)**
Net Forward currency contracts at 31 March 2013					**-**	**(387)**
Prior year comparative						
Gross Open forward currency contracts at 31 March 2012					**539**	**(23)**
Net Forward currency contracts at 31 March 2012					**516**	**-**

The following investments represent more than 5% of the net assets of the scheme

Market Value 31 March 2012	% of total fund	Security	Market Value 31 March 2013	% of total fund
£'000			£'000	
83,881	20.8	MPF All World Equity index	109,991	23.9
-	-	Baillie Gifford	76,297	16.6
25,592	6.3	UBS Global Asset Management	-	-
20,722	5.1	MPF North America Equity Index	-	-

14. Financial instruments

(a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2012				31 March 2013		
Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
104,209	-	-	Equities	107,401	-	-
70,854	-	-	Fixed Interest Securities	65,506	-	-
46,660	-	-	Index linked securities	53,541	-	-
539	-	-	Derivative contracts	92	-	-
149,864	-	-	Pooled investment Vehicles	201,454	-	-
25,592	-	-	Property	21,542	-	-
	3,904	-	Cash	-	6,774	-
	-	-	Other investment balances	-	-	-
	6,865	-	Debtors	-	6,523	-
397,718	**10,769**	**-**	**Financial Assets Total**	**449,536**	**13,297**	**-**
			Financial Liabilities			
(23)	-	-	Derivative contracts	(479)	-	-
-	-	-	Other investment balances	-	-	-
-	-	(4,959)	Creditors	-	-	(1,779)
(23)	**-**	**(4,959)**	**Financial Liabilities Total**	**(479)**	**-**	**(1,779)**
397,695	**10,769**	**(4,959)**	**Grand total**	**449,057**	**13,297**	**(1,779)**

(b) Net gains and losses on financial instruments

	2012/13	2011/12

	£'000	£'000
Financial assets		
Fair value through fund account	49,098	9,122
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
Financial liabilities		
Fair value through fund account	-	-
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	(14)
Total	**49,098**	**9,108**

c) Fair Value of financial instruments carried out at fair value

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values

2011/12			2012/13	
Carrying Value	**Fair Value**		**Carrying Value**	**Fair Value**
£'000	**£'000**		**£'000**	**£'000**
		Financial assets		
397,718	397,718	Fair value through fund account	449,536	449,536
10,769	10,769	Loans & receivables	13,297	13,297
408,487	**408,487**	**Total financial assets**	**462,833**	**462,833**
		Financial liabilities		
(23)	(23)	Fair value through fund account	(479)	(479)
(4,959)	(4,959)	Financial liabilities at amortised cost	(1,779)	(1,779)
(4,982)	**(4,982)**	**Total financial liabilities**	**(2,258)**	**(2,258)**

The council has not entered into any financial guarantees that are required to be accounted for as financial instruments

(d) Valuations of financial instruments carried out at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

Values at 31 March 2013	Quoted Market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through fund account	457,694	26	-	457,720
Loans and receivables	3,709	-	-	3,709
Total financial Assets	**461,403**	**26**	**-**	**461,429**
Financial Liabilities				
Financial liabilities at fair value through fund Account	(387)	-	-	(387)
Financial liabilities at amortised cost	(467)	-	-	(467)
Total Financial Liabilities	**(854)**	**-**	**-**	**(854)**
Net Financial Assets	**460,549**	**26**	**-**	**460,575**

Values at 31 March 2012	Quoted Market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through fund account	402,297	22	-	402,319
Loans and receivables	1,695	-	-	1,695
Total financial Assets	**403,992**	**22**	**-**	**404,014**
Financial Liabilities				
Financial liabilities at fair value through fund account	-	-	-	-
Financial liabilities at amortised cost	(509)	-	-	(509)
Total Financial Liabilities	**(509)**	**-**	**-**	**(509)**
Net Financial Assets	**403,483**	**22**	**-**	**403,505**

15. Nature and extent of risks arising from financial instruments

Risk and Risk Management

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

(a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the administrating authority and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held for the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the administrating authority to ensure it is within limits specified in the investment strategy.

Other Price Risk – sensitivity analysis
Following analysis of historical data and expected investment return movements during the financial year, in consultation with the fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Asset Type	31 March 2013 Potential market movements (+/-)	31 March 2012 Potential market movements (+/-)
UK Equities	18.30%	21.53%
Overseas Equities	0.00%	15.68%
Global Pooled inc UK	13.30%	0%
Fixed Interest Bonds	6.10%	7.03%
Index Linked bonds	9.90%	8.02%
Property	3.80%	4.05%
Cash	0.00%	0.02%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of assets.
If the market price of the fund investments had increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2013 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	89,525	18.30	105,908	73,142
Global Pooled inc.UK	219,330	13.30	248,501	190,159
Fixed Interest Bonds	65,506	6.10	69,502	61,510
Index linked bonds	53,541	9.90	58,842	48,240
Property	21,542	3.80	22,361	20,723
Cash	6,774	0.00	6,774	6,774
Total	**456,218**		**511,888**	**400,548**

Asset Type	Value as at 31 March 2012 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	239,900	21.53	291,551	188,249
Overseas Equities	14,173	15.68	16,395	11,950
Fixed Interest Bonds	70,853	7.03	75,834	65,872
Index linked bonds	46,661	8.02	50,403	42,918
Property	25,592	4.05	26,629	24,556
Cash	3,904	0.02	3,904	3,904
Total	**401,083**		**464,716**	**337,449**

Currency Risk
Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are

denominated in any currency other than the functional currency of the fund, i.e. £sterling.

The table below summarises the fund's currency exposure by asset type as at 31 March 2013 and 31 March 2012.

Currency Exposure by asset Type	Value as at 31 March 2013 £'000	Value as at 31 March 2012 £'000
Overseas Equities	17,876	14,172
Overseas Pooled	3,819	-
Overseas Fixed Interest bonds	1,797	1,467
Overseas Index Linked bonds	12,200	9,198
Overseas Cash	13	66
Total overseas assets	**35,705**	**24,903**

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 6.9% over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6.9% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset Type	Value as at 31 March 2013	Change to net assets available to pay benefits	
	£'000	+6.9% £'000	-6.9% £'000
Overseas Equities	17,876	19,109	16,642
Overseas Pooled	3,819	4,082	3,555
Overseas Index Linked Bonds	12,200	13,042	11,358
Overseas Fixed interest Bonds	1,797	1,921	1,673
Overseas Cash	13	14	12
Total	**35,705**	**38,168**	**33,240**

Currency exposure - Asset Type	Value as at 31 March 2012	Change to net assets available to pay benefits	
	£'000	+6.9% £'000	-6.9% £'000
Overseas Equities	14,172	15,150	13,194
Overseas Pooled	-	-	-
Overseas Fixed Interest Bonds	1,467	1,568	1,366
Overseas Index Linked Bonds	9,198	9,833	8,563
Overseas Cash	66	71	61
Total	**24,903**	**26,622**	**23,184**

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out in the following table. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2013 £'000	As at 31 March 2012 £'000
Fixed interest securities	119,047	117,514
Cash and cash equivalent	5,719	3,904
Cash Balances	1,055	1,195
Total	**125,821**	**122,613**

Interest rate risk sensitivity analysis

The pension fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates

Asset Type	Value as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+100BPS	-100BPS

	£'000	£'000	£'000
Fixed Interest Securities	119,047	1,190	(1,190)
Cash and cash equivalent	5,719	57	(57)
Cash Balance	1,055	11	(11)
Total Change in asset value	**125,821**	**1,258**	**(1,258)**

(b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash not needed to settle immediate financial obligations are invested by the authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

(c) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The administrating authority therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. The Pension Fund has immediate access to its cash holdings that are invested by the authority and periodic cash flow forecasts are prepared to manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund's cash management policy and in line with the fund's investment strategy holds assets that are considered readily realised.

16. Related Party Transactions

The Havering pension fund is administered by Havering Council. Consequently there is a strong relationship between the council and the pension fund.

There were no transactions with related parties other than those disclosed elsewhere within the accounts. During the year fees were paid to certain trustees for their services to the scheme. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

In 2012/13, £0.566m was paid to the Council for administration (£0.522m in 2011/12) and £19.700m (£19.398m in 2011/12) was paid by the Council to the Pension Fund in respect of employer's contributions.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2013 cash holdings totalled £3.4m.

No members of the Pension Fund committee are in receipt of pension benefits from the Havering Pension fund.

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

17. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2013 totalled £186k.This commitment relates to outstanding commitment due on an unquoted private equity fund.

18. Contingent Assets

Three admitted bodies in the Havering pension fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £5.1m and are drawn down in favour of the pension fund and payment will only be triggered in the event of employer default.

19. Impairment losses

There were no material impairment losses as at 31 March 2012/13.

20. Actuarial Present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 21). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £895m (31 March 2012 £764m). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2010 triennial funding valuation (see Note 21) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.
Assumptions used for the IAS 19 valuation are as follows:

	31 March 2013	31 March 2012
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.8	2.5
Salary Increase Rate	4.6	4.3*
Discount Rate	4.5	4.8

* Salary increases are assumed to be 1% until 31 March 2015 reverting to long term assumption shown thereafter.

21. Actuarial Valuation

London Borough of Havering ("the Fund")
Actuarial Statement for 2012/13

This statement has been prepared in accordance with Regulation 34(1) (d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the London Borough of Havering Funding Strategy Statement (FSS), dated February 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £361 million, were sufficient to meet 61.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £228 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Havering, administrating authority to the fund.

The Fund recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 30 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

	31 March 2010	
Assumptions	**Nominal**	**Real**
Discount Rate for Period	6.3%	3.0%
Pay increases *	4.8%	1.5%
Price inflation/Pension increases	3.3%	-

** Plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% for 10/11 11/12 and 12/13, 3.3% for 13/14 and 14/15 before reverting to 4.8% thereafter.*

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current Pensioners	21.9 years	24.6 years
Future Pensioners *	23.8 years	26.5 years

* *Future pensioners are assumed to be age 45 currently*

Experience over the period since April 2010

The funding level is likely to have worsened since the latest formal funding valuation.

There have been significant falls in government bond yields and to market expectations for long term inflation. The drop in bond yields is greater than the decrease in inflation expectations. The result is a decrease to the discount rate net of inflation which places a higher value on the liabilities.

Although total investment returns since the latest formal valuation have been higher than the long term assumption made at the 2010 valuation, this would only partially offset the impact the lower net discount rate has on the deficit.

The next valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Employers' contribution rates for the Council, in line with the actuary's recommendation are as shown below:

	Future Service %	**Past Service** %	**Total Pensionable Pay** %
April 11 to March 12	15.6	6.4	22.0
April 12 to March 13	15.6	6.4	22.0
April 13 to March 14	15.6	6.4	22.0

The employer contributions for the other employers in the fund range from 14.7% to 25.3% of pensionable pay.

22. Critical Judgements in applying accounting Policies

Pension Fund liability
The pension fund liability is calculated every three years by the appointed actuary, with annual updates provided to the majority of admitted and scheduled bodies in the fund in the intervening years. The methodology used in the annual updates is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

23. Events after the year end date

Local Government Pension Scheme

Changes to the Local Government Pension Scheme (LGPS) follow on from Lord Hutton's review of public sector pensions. The new Local Government Pension Scheme is expected to be implemented from the 1 April 2014. The main change of the new scheme involves a move from final salary to a pension based on average earnings over the career of the member. Under the new scheme existing benefits will be protected up to 31 March 2014. The pension fund liability, as disclosed in the Council's accounts, does not reflect the impact of the proposed scheme. The impact of the proposals are currently being evaluated but the precise impact on fund liabilities will not be known until a further valuation is carried out by the fund's actuary. This change is deemed to be a non-adjusting post year end event.

24. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the administrative body about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net asset statement at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The actuaries estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £89m.

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Group Director Finance and Commerce.

Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.

Approve the Pension Fund Statement of Accounts.

The Group Director Finance and Commerce's Responsibilities

The Group Director Finance and Commerce is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the code of practice").

In preparing this Pension Fund Statement of Accounts, based on enquiries of the former Group Director, the current Group Director Finance and Commerce can confirm that they:

Selected suitable accounting policies and then applied them consistently.

Made judgements and estimates that were reasonable and prudent.

Complied with the code of practice.

The Group Director Finance and Commerce has also:

Kept proper accounting records which were up to date.

Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Pension Fund Statement of Accounts presents the true and fair financial position and transactions of the Authority at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Councillor Rebecca Bennett
Chairman, Pensions Committee
Date: ………………………………..

Andrew Blake-Herbert
Group Director Resources
Date: ……………………………….

Independent auditors' report to the Members of the London Borough of Havering

We have audited the pension fund accounting statements included in the pension fund annual report of the London Borough of Havering for the year ended 31 March 2013 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Respective responsibilities of the Director of Finance and the auditor

The Director of Finance is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for London Borough of Havering's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the accounting statement

An audit involves obtaining evidence about the amounts and disclosures on the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by London Borough of Havering and the overall presentation of the accounting statement. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited accounting statement. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund's accounting statement:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013, and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Annual Report for the financial year for which the pension fund accounting statements are prepared is consistent with the accounting statements.

Julian Rickett
for and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
London, SE1 2RT

30 October 2013

Notes:

(a) The maintenance and integrity of the London Borough of Havering's website is the responsibility of senior officers; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

BENCHMARKING REPORT

Under regulation 34(1) (g) and in accordance with 65 (2) (b) of the 2008 Administration Regulations, an administrative authority has the option to include an annual report dealing with the funds position with regard to benchmarking administration performance. In line with regulations and after consideration, the administrative authority has not adopted a Pension Administration Strategy. This option continues to be reviewed.

Although the Administrative Authority has not adopted an Administration strategy it has documents that cover the information on the pension scheme, forms and contribution schedules. Arrangements are made to meet all new scheme employers where their responsibilities are set out, service standards are outlined and electronic copies of all information, forms and schedules are provided. Employing Authorities must ensure proper records of staff are kept so that the right contributions are paid and staff receive the benefit to which they are entitled when they leave employment.

The Administrative Authority does report the benchmarks to its investment and these can be found in the Investment Policy and Performance report.

FUNDING STRATEGY STATEMENT - overview

The Administering Authority produces a Funding Strategy Statement (FSS) which encompasses the aims and purposes of the fund, and the overall investment strategy. The FSS was reviewed as part of the 2010 valuation process, updated in March 2011 and currently being reviewed as part of the 2013 valuation process.

This statement can be found in the appendices section at the back of this report.

This statement is also available on the Council's website at **www.havering.gov.uk**. (Within 'Services' 'Council and Democracy',' Council budgets & spending' 'Pension Fund')

The Council undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated at the back of the report.

STATEMENT OF INVESTMENT PRINCIPLES - overview

The Local Government Pension Scheme regulations require the administrating authority to prepare and publish a Statement of Investment Principles (SIP). This Statement sets out the Council's policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated.

The statement of Investment principles must cover the Fund's policy as follows:

- The types of investments held
- The balance between different types of investments
- Risk
- The expected return on investments
- The extent to which social, ethical or environmental considerations effect investments.

A report commissioned by the Government, 'The Myners Report', recommended ten principles of best practice in managing Pension Fund investments. The Council's SIP outlines the Pension Fund's compliance with these principles.

Statutory Instrument 2002 No.1852 requires that London Borough of Havering, administering authority of the Havering Pension Fund, publish details of the extent to which the fund complies with the ten principles identified as indicators of best practice in the Myners' Review of Institutional Investment.

In 2007 HM Treasury sponsored the NAPF to conduct a review of progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The resultant report 'Institutional Investment in the UK: Six years on' was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles.

The new principles were launched in October 2008 and HM Treasury and the Department for Work and Pensions jointly commissioned by the Pensions Regulator to oversee an Investment Governance Group were given the task of implementing the new principles across all UK pension funds.

There is an Investment Governance sub-group especially for the LGPS (including representatives of CLG and CIPFA) who have amended the principles to fit the LGPS. CIPFA published a guide to the application of the Myners Principles 'investment decision making and disclosure' in December 09. Information on how Havering has complied with these six principles is included as an appendix in the Statement of Investment Principles.

The SIP together with the Myners' compliance table can be found in the appendices at the back of the report.

This SIP and the Myners' compliance table have also been published on the Council's website at **www.havering.gov.uk**. (Within 'Service' 'Council and Democracy', 'Council budgets & spending', 'Pension Fund').

The Council undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated at the back of the report.

COMMUNICATIONS POLICY STATEMENT- overview

Regulation 67 of the Local Government Pension Scheme Administration Regulations 2008 requires the Administration Authority to prepare and publish a written statement covering communications with scheme members and employing authorities.

The statement must set out the policy concerning:

- communications with members, representatives, prospective members and employing authorities
- format, frequency and method of distributing such information or publicly.

This statement is reviewed periodically. A revised Communications Policy Statement was approved at the Pension Committee 26th March 2013 for the period 2013 – 2015. A review of the Communication Strategy presented to Committee in November 2010, identifying what has been achieved and what is outstanding is shown below.

This statement can be found in the appendices at the back of this report.

This Statement has also been published on the Council's website at **www.havering.gov.uk**. (Within 'Services', 'Council and Democracy', 'council budgets & spending' 'Pension Fund').

Communication Policy Delivery

Communication Responsibilities	Paper Form	Electronic Form	Web	Face	Audience/ Frequency	Achieved
Recent changes	✓	✓	✓	✓	All/ As required	Yes
Regular Updates		✓		✓	Employers/ As required	Yes
Employers Guide	✓	✓		✓	Employers/ As required	Yes (Guide being updated)
Pension Fund Annual Report and Accounts			✓		Scheme Members and Employers/ Annually	Yes
Newsletters	✓		✓		Scheme Members/ As required	Yes
Benefit Statements	✓				Active and deferred members/ Annually	Active – Yes (where records can be relied on) Deferred – Yes (where address confirmed)
Scheme Literature		✓	✓		Scheme Members/ As required	Yes
Pay Advice	✓				Pensioners/ Initial and then three times a year	Yes

Communication Responsibilities	Paper Form	Electronic Form	Web	Face	Audience/ Frequency	Achieved
Scheme booklet	✓	✓	✓		Prospective Scheme Members/ As required	Yes
Corporate Induction				✓	Prospective and Active Scheme Members/ As required	Yes
Correspondence	✓	✓			All/ As required	Yes
Team meetings				✓	ISS Pension Team/ Monthly	Yes
Seminars				✓	ISS Pension Team and Fund Management/ As required	Yes
Training				✓	ISS Pension Team, Fund Management, Pension Committee Members/ As required	Yes
Roadshows				✓	Prospective and Active Scheme Members/ As required	Yes (Automatic Enrolment)
Pre-retirement Courses				✓	All employees/ As required	Yes

CONTACT POINTS FOR FURTHER INFORMATION

If you have any queries on the benefits or costs of membership of the Pension Fund please contact:

Pensions Administration
Central Library, 2nd Floor
Park End Road
Romford
RM1 3AR

Telephone: 01708 432978/ 2981/ 2192

Email: pensions@havering.gov.uk

For further information on issues relating to Fund Investments and Accounts, or feedback on any of the contents in this report please contact:

Debbie Ford
Pension Fund Accountant
Central Library, 1st Floor
Park End Road
Romford
RM1 3AR

Telephone: 01708 432569

Email: debbie.ford@havering.gov.uk

Other useful addresses:

Local Government Pension Scheme website: www.lgps.org.uk

Local Government Pension Scheme information and Havering Pension Fund communication with members: www.yourpension.org.uk (site managed by the London Pension Fund Authority)

The Pension Service website: www.thepensionservice.gov.uk

APPENDICES

Havering
LONDON BOROUGH

PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

UPDATED NOVEMBER 2012

1. The Council is the Administering Authority of the Havering Pension Fund (the Fund). The council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

2. **Constitutional Arrangements**

Under the Council's Constitution the duties and terms of reference of the Pension Committee are as follows:

"To consider and agree the investment strategy and statement of investment principles for the pension fund and subsequently monitor and review performance".

"Authorise staff to invite tenders and award contracts for actuaries, advisers and fund managers and in respect of other related investment matters".

"To appoint and review the performance of advisers and investment managers for pension fund investments".

"To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning the Local Government Pension Scheme"

3. **Current Membership of the Pension Committee**

From May 2012 the Pension Committee consists of seven councillors listed below:

Conservative Group (4)	**Residents' Group (1)**	**Independent Residents (1)**	**Labour (1)**
Melvin Wallace (Chair) Rebecca Bennett (Vice Chair) Eric Munday Roger Ramsey	Ron Ower	Jeffery Tucker	Pat Murray

Three Members constitute a quorum.

The staff trade union may appoint two representatives, entitled to attend and speak at meetings of the Pension Committee. They possess no voting powers. These representatives are however entitled to remain within the Committee, should the public be excluded on the grounds that exempt information is to be considered.

Scheduled and Admitted bodies may appoint one representative, entitled to attend the meetings of the Pensions Committee on their behalf. Voting rights were assigned to this representative at a Council meeting on the 28 March 2012.

The Committee obtains and considers advice from the authority’s officers, and as necessary from the fund’s appointed professional advisor, actuary and performance measurers who also attend the meetings as and when required.

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the Council in order that members are fully trained in matters relating to investment, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained. The constitution was amended on the 28 March 2012 to include a condition that if a member does not undertake the required training within six months of appointment than that member shall not partake in the decision making of the Committee until their training has been completed.

Day to day management of the fund is delegated to the Group Director Finance and Commerce.

The Committee is supported by the Group Director of Finance and Commerce and the Assistant Chief Executive Legal and Democratic Services. The Head of Internal Shared Services has the responsibility to administer the Council’s pension fund.

4. Training/Reimbursement

An annual training plan is submitted to the Pensions Committee for approval. Committee Members receive in depth training on a wide range of topics. Specific training is given on specific investment topics prior to any key decisions being taken. This approach ensures that important decisions are taken whilst training is still fresh in Members minds.

Members expenses are reimbursed in line with the Council’s constitution as laid down in part 6 ‘Members Allowance Scheme’.

5. Whistle Blowing

The Pension Committee comply with the Whistle Blowing requirements of the Pension Act 2004. It urges anyone to inform the correct authorities of any known wrong doings.

6. Diary

The Committee meets five times a year and occasionally holds extra meetings if required.

7. Further Trustee Responsibilities on Governance and Stewardship

Trustees are encouraged to look beyond administration procedures to really understand the key risks associated with all the functions and activities of the scheme. They are expected to consider risk management and stewardship in broad terms. Key risks include:

- Risk of fraud
- Corporate risk – risk of deterioration in the strength of employer covenant
- Funding and Investment risk – inappropriate investment strategies (one example of this could be risk of a mismatch of assets and liabilities)
- Compliance of Regulatory risk – risk of failure to comply with scheme rules and legislation

The further practical steps undertaken to cover these risks are as follows:

- The Statement of Investment Principles includes procedures to undertake a risk management review, and ensures terms of reference of delegations cover all key responsibilities.

- There are codes of conduct in place which ensure there is a process in place that considers potential conflicts of interest, with clearly identified steps to mitigate the likelihood or protocols if conflict occurs.

- The Pension Committee periodically sets out a business plan for the year.

8. Accountability and publication of information

Details of the Pension Committee meetings are published on the Council's website together with agendas and minutes. The meetings of the Pension Committee are held at the Town Hall and are open to the public.

Scheduled and Admitted bodies are directed to the Agenda and minutes published on the Council's web-site and are notified in writing of any major issues.

An Annual Pension Fund Report and Accounts is published and circulated to all council members, reporting on the activities and investment performance of the fund. The report also includes the meetings held and details of matters considered.

9. Reviewing and Updating

As well as undertaking an annual review the Council will review the policy as and when material changes occur.

10. Compliance table

A table is appended to this document and shows the extent of compliance with guidance given by the Sectary of State.

	PRINCIPLE	HAVERING POSITION
A	<u>**Structure**</u> a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Full compliance**. Duties and terms of reference are laid out in the Councils constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the Pension Fund is delegated to the Group Director Finance and Commerce. Sections 2 and 3 of the Governance Compliance Statement refer.
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.	**Full compliance.** Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. There is no secondary committee. Section 3 of the Governance Compliance Statement refers.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No secondary committee or panel has been established.
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No secondary committee or panel has been established.

	PRINCIPLE	HAVERING POSITION
B	**<u>Representation</u>** a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g. admitted bodies);	i**) Full compliance** - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee. This position became vacant in May 2012 and a replacement is currently being sought. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.
	ii) scheme members (including deferred and pensioner scheme members),	ii) **Full compliance** – via trade union representation
	iii) where appropriate, independent professional observers, and	iii**) Non compliance** – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.
	iv) expert advisors (on an ad-hoc basis)	iv) **Full compliance** – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required. Section 3 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
C	**<u>Selection and role of lay members</u>** a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Full compliance.** Duties and terms of reference are laid out in the Councils constitution and states that management of the pension fund lies with the Pensions Committee. Sections 2 and 3 of the Governance Compliance Statement refer.
	b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Full compliance.** Declarations of interest are always an agenda item at the Pension Committee meetings. Section 7 of the Governance Compliance Statement refers.
D	**Voting** a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Full compliance.** The Governance Compliance Statement is clear about voting rights Section 3 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
E	**<u>Training/Facility time/Expenses</u>**	
	a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**Full compliance.** Member's expenses and allowances are laid out in the Council's Constitution (Part 6). The business plan includes the policy on training.
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Full compliance**. As above.
	c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	**Full compliance.** As above. Training is laid out in the Annual Business Plan/Work of the Committee. The Business Plan is agreed by the Pensions Committee and all committee members and nominated substitutes are offered training. A log is maintained and records attendance and training undertaken. Section 4 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
F	**<u>Meetings (frequency/quorum)</u>**	
	a. That an administering authority's main committee or committees meet at least quarterly	**Full compliance**. The Pension Committee meets five times a year and occasionally holds extra meetings if and when required. Sections 2, 3 and 6 of the Governance Compliance Statement refer.
	b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.	No secondary committee or panel has been established.
	c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.	**Full compliance.** Membership on the pensions committee has been extended for one representative to serve all admitted/scheduled bodies. The current forums for which stakeholders interests can be represented are: • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. • Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. Factsheets and scheme communications are also published on this website along with contact details at Havering for members to contact with their views.

	PRINCIPLE	HAVERING POSITION
G	**<u>Access</u>**	
	a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Full compliance**. Committee papers are sent to members at least seven days prior to the meeting and non confidential papers are published on the Council's website. Section 8 of the Governance Compliance Statement refers.
H	**<u>Scope</u>**	
	a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	**Full compliance**. The Committee already considers a wider range of pension issues. Section 7 of the Governance Compliance Statement refers.
I	**<u>Publicity</u>**	
	a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Full compliance.** Governance arrangements are published on the council's website and comments are invited from stakeholders. Section 8 of the Governance Compliance Statement refers.

Havering
LONDON BOROUGH

HAVERING PENSION FUND

COMMUNICATION STRATEGY

2013 -2015

COMMUNICATION STRATEGY 2013 - 2015

INTRODUCTION

The Local Government Pension Scheme (LGPS) continues for now as a final salary pension scheme. The LGPS will move to a Career Average Revalued Earnings (CARE) basis from April 2014 and the London Borough of Havering Pension Fund (LBH) needs to prepare for the communications challenges that a change of this magnitude will bring.

The focus of this Communications Strategy is to ensure that our membership know and understand their benefits (past and future) and that our communications remain effective and accessible to all. To achieve this in the face of the challenge to come will require reviewing and increasing the effectiveness with which we communicate with the Fund membership and stakeholders.

An effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers.

The scheme stakeholders include:

- COMMITTEE MEMBERS
- EMPLOYERS including
    - LONDON BOROUGH OF HAVERING
    - SCHEDULED BODIES
    - ADMITED BODIES
- SCHEME MEMBERS
    - ACTIVE MEMBERS (CONTRIBUTORS)
    - RETIRED MEMBERS AND DEPENDENTS
    - DEFERRED MEMBERS
    - PENSION CREDIT MEMBERS
- PROSPECTIVE SCHEME MEMBERS
- OFFICERS WORKING IN THE ISS PENSION TEAM AND FUND MANAGEMENT
- INVESTMENT FUND MANAGERS

- OTHER BODIES
    - TRADE UNIONS
    - ACTUARIES
    - LEGAL ADVISER
    - AVC PROVIDERS
    - PENSION ADMINISTRATION SOFTWARE PROVIDER
    - INVESTMENT ADVISOR

Set out in this document are the key communication priorities, the mechanisms and format which will be used to meet those communication needs.

The Fund aims to use the most appropriate communications medium for the audiences receiving the information. This may involve using more than one method of communication, with methods of communication being kept under review.

The frequency of communications and publicity is detailed in the relevant sections below where already determined, otherwise information will be provided in the most effective, economic and timely manner.

COMMUNICATION PRIORITIES

There are four areas of significant change and challenge that will drive the communication strategy during the period 2013 – 2015:
i) Automatic Enrolment;
ii) the introduction of the new CARE pension scheme from April 2014;
iii) the Triennial Revaluation;
and
iii) procuring a new pension software system in readiness for the 2014 pension changes.

Therefore, the overall focus for the Strategy will be '**Get ready for new challenges'**.

The key actions required to deliver the focus of the strategy are detailed below, these will be the basis of the Communication Strategy monitoring.

The Key actions will be -

Action 1 – 'Get ready for new challenges' for active members:

- review employee communications methods to ensure that they are efficient as well as effective
- promote use of the LBH pension website,
- www.yourpension.org.uk/handr and the Council's Pension Fund pages, www.havering.gov.uk/pages/services/pension-fund.aspx
- explore development of member online access to the pension administration system in line with ISS self service
- explore the development of member online benefit statements in line with ISS self service
- support the Pension Team staff in developing communicating skills through training, support and on the job training to increase their overall skills and knowledge
- support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge

Action 2 – 'Get ready for new challenges' for employers:

- maximise the use of the newly developed Pensions Team employer communication database
- distribute material for employers to issue to employees
- work with employers to ensure they communicate effectively and efficiently with their employees
- continually review and improve the material and service available to employers via the LBH pension website, www.yourpension.org.uk/handr, and the Council website, www.havering.gov.uk/pages/servoces/pension-fund.aspx
- collate Employer Discretion Documents
- explore online access for scheduled and admitted bodies to automate interfaces and updates, reducing administrative overheads
- regular meetings with Scheme Employers
- allocated Specialist Senior Transactional Agent to each employer as employer liaison officers

Action 3 – 'Get ready for new challenges' for pensioners:

- explore development of member online access to the pension administration system in line with ISS self service

COMMUNICATION RESPONSIBILITIES AND METHODS

The provision of timely and relevant information to stakeholders will be key to managing the expected increase in demand for information and it is important that we start to manage these expectations in resource (ie staff time) terms as things begin to change.

The most efficient form of communication channel is on-line self-service and the least efficient channel is face-to-face, although the customer profile dictates the most effective communication channel.

A review of the effectiveness and efficiency of all communication channels will take place, with an aim of developing the more efficient channels. The channels on order of efficiency are:

- on-line self-service
- websites
- anticipating and targeting appropriate information to members via e-communication routes
- anticipating and targeting appropriate information to members via hardcopy distribution
- responding within set targets to incoming email (generic inbox)
- responding within set targets to incoming phone calls (generic phone number)
- roadshows for groups of Fund members
- meeting Fund members individually face-to-face
- regular meetings with External Employers (joint meetings and individual surgeries)
- employer newsletters and electronic updates

The Pensions Team will analyse the costs and benefits of all our future communications activities with a view to using the most efficient and effective methods, subject to appropriate systems to facilitate efficient communication methods with more members of the scheme than is the case at present. In this way, we plan to be ready for the new challenges when more detail of the new scheme is released by the Government and the demand for information will be at a peak.

PENSION COMMITTEE MEMBERS

The Fund management and administration decisions have been delegated under the Council's constitution to the Pensions Committee.

Knowledge building and training is provided via the Fund's Officers, advisors and external experts with regards to investment and administration matters.

Admitted and Scheduled Bodies who have members in the Fund are represented at the Pensions Committee meetings by one of the employers of the fund who acts on behalf of all other employers. This position has been assigned voting rights from March 2012. The Trade Unions are also invited, who attend meetings on an observer basis, but whose views are given equal weighting. The Trade Union representatives are also Scheme members.

The work of the Trade Union members is supported by Trade Union representatives.

SCHEME EMPLOYERS

Recent Changes
Following the Education Act 2011 there has been a significant growth in scheme employers due to the rising number of Secondary schools converting to Academies in the borough, and this trend is still continuing with Primary school Academies now being formed. The responsibilities for the Academies as separate employers are new and experience so far has demonstrated that support beyond the normal is required to help them meet their statutory functions. The second impact of the new Academies, specifically for the Pension Team, is that the employer base has increased which increases the overall management and monitoring of scheme employers.

Regular Updates
These are issued periodically to all employers electronically. This medium is also used to communicate any issues that are currently under debate. Changes to the Regulations which impact upon the employer's function or their employees are also covered.

Employers' Guide
An Employers Guide is issued to assist the employers in discharging their pension's administration responsibilities. Officers are also available for advice.

This is supplemented by contacting a Specialist Senior Transactional Agent to non-Havering employers, available by telephone or personal visit to assist whenever necessary.

Internet
A microsite for employers is to be established from the Fund website. All manuals and Scheme literature will be available on this site.

Site Meetings
Meetings with non-Havering Employers take place at their premises, as required. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

SCHEME MEMBERS

Internet
Continue to review the content, facilities and links of the Fund website, which contains Scheme details, fact sheets, forms, other literature and links to useful associated websites; and the Council website, which contains a number of strategies and financial information for our members to view.

Pension Fund Annual Report and Accounts
The Pension Fund communicates with its members via publication of an Annual Report which is available on the Council's website.

A copy of the Fund's accounts is available on the Council's website, included in the Pension Fund's Annual Report and available on the Fund website.

Newsletters
Newsletters are issued to members of the Fund, as changes to the scheme occur, and covers current pension topics within the LGPS, specific issues for Havering and the pensions industry in general. These are also archived on the Fund website.

Benefits Statements
An Annual Benefit Statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year end.

Benefit Statements are also sent direct to the home address of deferred members where a current address is known.

Scheme Literature
An extensive range of Scheme literature is produced by the Administering Authority and is supplied to employing bodies and Scheme members directly as well as being available on the funds website.

Pay Advices
The Fund no longer issues a pay advice to Scheme pensioners if their net pay varies by more than £1.00. An initial payslip, detailing the first pension payment, will be sent to the home address. Further payslips will only be issued each April, May and October.

Additionally, a statement of earnings detailing gross pay, statutory deductions and net pay will be sent to all pensioners in April for the previous tax year. Pension Increase letters are sent out annually and a P60 will be issued annually in May as per HMRC deadlines.

The authority is implementing Real time Information (RTI), which will impact upon year end returns.

Correspondence
The fund utilises the Shared Services contact number and email through Supportworks, together with surface mail and e-mail to receive and send correspondence in accordance with Audit advice and guidance.

Our Aspirations
To offer "self service" to update the scheme member individual records on the pension administration system. This will allow them to access their pension record using a password security system and to transact a significant proportion of their pensions business without having to enter into formal correspondence. Self-service is dependent upon upgrading the pension administration system.

Pension Roadshow
The Fund stages Pensions Roadshows as and when required to communicate with scheme members on changes to the scheme or promote the scheme or specific aspects of it.

Additionally, Pensions Administration Staff attend Pre-retirement courses and recruitment days run by the Council to provide information to staff nearing retirement.

PROSPECTIVE SCHEME MEMBERS

Scheme Booklet
All new prospective Scheme members will be provided with an electronic Scheme booklet at the time of their appointment to the London Borough of Havering and directed to the Fund website.

Intranet
The Fund's Intranet area contains a link to the fund website at www.pension.org.uk/handr

Trade Unions
We will work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

Pensions Roadshows
As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from the DWP and in-house AVC providers. This will ensure members receive the information required to make an informed choice with regards to their pension provision. Currently roadshows are being delivered to communicate Automatic Enrolment and the proposed pension scheme changes in April 2014.

Corporate Induction Courses
Officers of the Council will attend corporate induction events in order to present to prospective Scheme members the benefits of joining the LGPS.

One-to-One" surgeries
One-to-One surgeries or meetings are also offered to take account of individual queries where a request is received.

OFFICERS WORKING IN THE ISS PENSION TEAM AND FUND MANAGEMENT

Service Management Teams
The Fund is managed by Financial Services and administered by Internal Shared Services whose Senior Officers report to the relevant Heads of Service.

Team Meetings
Office and/or Team Meetings are held on a regular basis.

Group Management Team Meetings – Finance and Commerce
The Heads of Service are members of the Group's Management Team and attend the regular meetings convened by the Group Director. The Heads of Service are able to bring any matters of concern/importance to the attention of the Group Director through this mechanism.

Any necessary information arising from the Group's Management Team Meeting is disseminated within the Services, via Management Team and Team Briefings. Due to the nature of the investment work and delegation the Pensions Accountant meets with the Group Director, Finance and Commerce as required.

Shared Area
Shared areas give all staff access and contain such information as procedure manuals, core briefings, LGPS circulars etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner

Induction
All new members of staff undergo an induction procedure and an induction/personnel manual is available to all staff.

The Council has introduced a performance appraisal scheme for staff which includes a process for discussing and reviewing personal development. This is supplemented by regular one to one meetings with all staff.

Seminars
Pension Team officers regularly participate at seminars, conferences and specialised targeted training courses.

Pensions Team Leader
The Pensions Team Leader maintains an open-door policy and, within reason, is available to all staff on request.

Pension Fund Accountant
On a similar basis responds to staff and other enquiries. Skills and knowledge is kept up to fate through participation at seminars and conferences

INVESTMENT FUND MANAGERS

Day to day contact between the pension fund accountant and the fund managers is maintained. Each fund manager is required at the end of each quarter to present their performance alternately to the Pensions Committee or to officers including the Group Director Finance and Commerce.

OTHER BODIES

Trade Unions

Trade Unions in the London Borough of Havering are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pensions Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

Seminars

Pension Administration Team and Fund Officers regularly participate at seminars and conferences.

CIPFA Benchmarking club

Annual contribution and membership of the CIPFA Pension Administration benchmarking club. Attendance at Benchmarking Steering Groups and review meetings.

Data Protection

To protect any personal information held on computer, the London Borough of Havering is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if necessary, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the London Borough of Havering's Council's Data Protection Officer on 01708-432130.

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

- 80 -Further Information

If you need more information about the Scheme you should contact the Pensions Administration Service at the following address:

Write to us at:
Pensions Team
Internal Shared Services
Central Library, 2nd Floor,
Park End Road
Romford
RM1 3AR

Tel: 01708 433333
Fax: 01708 432078
E-Mail: pensions@havering.gov.uk, or pensions@havering.gov.uk

Council's website:
www.havering.gov.uk/pages/services/pension-fund.aspx

Fund website:
www.yourpension.org.uk/handr

There is also a number which you can dial direct and get through to the person dealing with individual cases. You will find this on any letter issued by the Fund.

Tel: 01708 432192/432981
Fax: 01708 432078
E-Mail: pensions@havering.gov.uk
Council's website:
www.havering.gov.uk

There is also a number which you can dial direct and get through to the person dealing with individual cases. You will find this on any letter issued by the Fund.

Havering
LONDON BOROUGH

FUNDING STRATEGY STATEMENT

MARCH 2011

FUNDING STRATEGY STATEMENT

LONDON BOROUGH OF HAVERING PENSION FUND

Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997. The Statement describes London Borough of Havering's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the London Borough of Havering Pension Fund (the Fund).

As required by Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the Administration Regulations), this Statement is kept under review and revised as appropriate. In reviewing and making revisions to the Statement, the Administering Authority has regard to guidance published by CIPFA in March 2004.

Consultation

In accordance with Regulation 35(3) (b) of the Administration Regulations, all employers participating within the London Borough of Havering Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations).

The Fund Actuary, Hymans Robertson LLP, has also been consulted on the contents of this Statement.

Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

The Aims of the Fund

The aims of the Fund are:

1. To ensure that sufficient resources are available to meet all liabilities as they fall due.

   The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

2. To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

   The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

   - the regulatory requirement to secure solvency,
   - the requirement that the costs should be reasonable, and
   - maximising income from investments within reasonable cost parameters (see 4 below)

   Producing low volatility in employer contribution rates requires material investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

   Other classes of assets, such as other equities and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods.

   This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of stabilisation mechanisms.

   The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the stabilisation mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of stabilisation mechanisms is less appropriate.

3. To manage employers' liabilities effectively.

   The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Pensions Committee Members are properly informed, and through regular monitoring of the funding position.

4. To maximise the income from investments within reasonable risk parameters.

   The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

   - restricting investment to the levels permitted by the Investment Regulations.
   - restricting investment to asset classes generally recognised as appropriate for UK pension funds.
   - analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

Purpose of the Fund

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.
2. To receive monies in respect of contributions, transfer values and investment income.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

   Individual employers must pay contributions in accordance with Regulations 39, 40, 41, 42 and 43 of the Administration Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. The contributions to the Pension Fund are monitored and processed by the Pension Administration team. If contributions are received more than a month after payment is due, interest will be charged at the rate of 1% above the bank base rate.

The Administering Authority will ensure that action is taken to recover assets from Admitted Bodies whose Admission Agreement has ceased by:

- Complying with Regulation 38(2) of the Administration Regulations by requesting that the Fund Actuary calculates any deficit at the date of the cessation of the Admission Agreement
- notifying the Admitted Body that it must meet any deficit at the cessation of the Agreement.

2. Invest surplus monies in accordance with the regulations.

   The Administering Authority will comply with Regulation 9 of the Investment Regulations.

3. Ensure that cash is available to meet liabilities as and when they fall due.

   The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. Manage the valuation process in consultation with the Fund's Actuary

   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

   - agree timescales for the provision of information and provision of valuation results
   - ensure provision of data of suitable accuracy
   - ensure that the Fund Actuary is clear about the Funding Strategy
   - ensure that participating employers receive appropriate communication throughout the process
   - ensure that reports are made available as required by Guidance and Regulation

5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. Monitor all aspects of the Fund's performance and funding and amend these two documents if required.

   The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis. The Statement of Investment Principles and Funding Strategy Statement will be reviewed annually, unless circumstances dictate earlier amendment.

Individual Employers will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
3. Exercise discretions within the regulatory framework.
4. Pay for added years or pensions in accordance with agreed arrangements.
5. Notify the administering authority promptly of all changes to membership, or other changes which affect future funding

The Fund Actuary will:

1. Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.

   Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Board for Actuarial Standards, to the extent that the Guidance Note is relevant to the LGPS.

2. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

   Such advice will take account of the funding position and funding strategy of the Fund, along with other relevant matters.

Solvency

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions (ongoing funding basis).

'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available on long term fixed interest and index linked gilt edged investments. The Administering Authority has also agreed with the Fund Actuary that the assumptions will make partial allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the fund.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

Funding Strategy

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years. The Administering Authority's policy is to adopt recovery periods for each employer which are as short as possible within this framework.

For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation, other than in exceptional circumstances, when it may permit recovery over a period not exceeding 10 years subject to security, e.g. an indemnity or bond or other contingent asset of amount and form acceptable to the administering Authority, being maintained.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority’s policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

Identification of risks and counter measures

The Administering Authority’s overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

Demographic

The main risks include changing retirement patterns, take up of the commutation option and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

Regulatory

The risks relate to changes to regulations, National pension requirements or Inland Revenue rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority’s policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial

This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to regularly assess such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, stepping and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between 1 April 10 and 1 April 2011 which render the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 20 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the
process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps. In exceptional circumstances further steps may be permitted but the total is highly unlikely to exceed six annual steps.

Admission Bodies Ceasing

Admission agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission agreements for other employers are generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These admission agreements can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the admission body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the admission body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date

As an alternative to (b) above where the ceasing Admission Body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified.

Early Retirement Costs

Non Ill Health retirements

The Actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members’ benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to any part of their benefit and without requiring their employer’s consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired “early”.

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years. In any event the spread period cannot exceed the period to the member’s normal retirement date if this is shorter than 3 years.

Ill health monitoring

The Fund will monitor each employer’s, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

New Admitted Bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the awarding authority and/or the Administering Authority. The bond is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer’s contract
- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields

The Fund may also require employers to include their current deficit within the bond amount. The bond amount will be reassessed by the Fund actuary on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities, and also provide a bond if requested.

These measures reduce the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

Links to investment policy set out in the Statement of Investment Principles

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this Statement.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

Future monitoring

The Administering Authority plans to review this statement annually, and as part of the triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will discuss with the actuary the impact on the funding position of any significant changes that have arisen to determine whether interim valuations or any other action needs to be taken.

STATEMENT OF INVESTMENT PRINCIPLES

JULY 2013

STATEMENT OF INVESTMENT PRINCIPLES

London Borough of Havering Pension Fund ('the Fund')

Background

Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999 as amended require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to review it at least every three years and without delay after any significant change in investment policy. They are also required to set out a Statement of Compliance with the six Principles of Investment Management contained in the CIPFA document ''Principles for Investment Decision Making and disclosure" published in December 2009.

In preparing this Statement, the Pensions Committee has considered advice from the Investment Practice of Hymans Robertson LLP.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Fund's compliance with this voluntary code is summarised in the Appendix to this statement.

Purpose and Scope of Scheme

The London Borough of Havering is the Administering Authority for the London Borough of Havering Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS) and provides death and retirement benefits for all eligible employees and their dependants. It is a final salary defined benefit Pension Scheme, which means that benefits are payable based on the employees' final salary. All active members are required to make pension contributions which are based on a fixed percentage of their pensionable pay as defined in the LGPS regulations. Following the changes to the benefit structure of LGPS Schemes from 1 April 2008, active members previously paying contributions of 6% will pay banded rates between 5.5% and 7.5% depending on their level of full-time equivalent pay. Manual workers in employment before 1st April 1998 who previously had a protected 5% rate are subject to transitional rates.

The London Borough of Havering is responsible for the balance of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time (but at least triennially) by the Fund's actuary.

The London Borough of Havering has a direct interest in the investment returns achieved on the Fund's assets, but the benefits paid to pensioners are not directly affected by investment performance.

Pensions Committee

A dedicated group of Councillors (the “Pensions Committee”) has been set up to deal with the majority of the Fund’s investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives of The Council who each have voting rights and Trade Union and Employer representatives who have observer status. Scheduled and admitted bodies may appoint one representative who is entitled to attend the meetings of the Pensions Committee on their behalf. Voting rights were assigned to this representative at a Full Council meeting on the 28 March 2012. The Pensions Committee reports to Full Council and has full delegated authority to make investment decisions. The Pensions Committee decides on the investment policies most suitable to meet the liabilities of the Havering Pension Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy.

In particular, the Pensions Committee has duties that include:

- Monitoring the investment performance of the Fund on a quarterly basis;
- Determining overall objectives and strategy;
- Ensuring compliance with legislative requirements;
- Receiving the triennial valuation prepared by the Funds actuary with recommended contribution levels;
- Determining asset allocation and benchmarking;
- Appointment of Investment Managers.

The Pensions Committee is set up under the Local Government Act so that, where necessary, it can exercise decision-making powers. The Pensions Committee meets at least four times per year to hear reports from its officers, investment managers, actuary, investment adviser and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

The Pensions Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment adviser (including specific investment advice), the actuary to the Fund and its investment managers.

The Regulations state that the Administering Authority must, when formulating its investment policy, have regard to the advisability of investing fund money in a wide range of investments and to the suitability of particular investments and types of investments.

Fund Objective

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;
2. To receive monies in respect of contributions, transfer values and investment income.

The overriding aims of the Fund as set out in the Funding Strategy Statement are as follows:

- To ensure that sufficient resources are available to meet all liabilities as they fall due.
- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.
- To manage employers' liabilities effectively.
- To maximise the income from investments within reasonable risk parameters.

For active members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated consistently on the on-going basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2010. The fund's performance is monitored quarterly by the Pensions Committee and the funding position is formally reviewed at each triennial actuarial valuation or unless circumstances arise which require earlier action.

Investment Objectives

In framing investment strategy, it is recognised that the Committee has the long-term objective of being 100% funded on the current funding basis (i.e. with liabilities discounted at a rate of 1.8% p.a. in excess of gilt yields). The Committee is currently targeting to achieve this objective over the period to 2030.

The Committee wishes to pursue an investment strategy that retains at least a 60% chance of achieving this long-term objective. They have recognised that, over the ten year period from 31 March 2012, the required return from the Fund's assets to get "back on track" is around 6.5% p.a. more than the growth in the Fund's liabilities.

The Committee acknowledges this objective to be challenging and will therefore use this as a point of reference, rather than an explicit target. The Committee will monitor the development of the Fund's funding level on at least an annual basis to ensure the Fund remains on track and to identify any potential actions needed.

Based on advice from their Investment Adviser and a detailed review of strategy undertaken during 2012, the Committee has adopted a flexible investment strategy that reflects the following principles:

- Growth: The Committee recognises that a high allocation to "growth" assets/strategies is needed to achieve the long-term objective.
- Control: The Committee recognises that diversification can provide some protection against changing market conditions but that systemic risk cannot be diversified. The Committee therefore believes that greater dynamism within the investment strategy is desirable in order that the underlying strategy can be changed in response to changing market conditions.

- Income: The Committee recognises the emerging gap between income and benefit expenditure and hence the need to draw on investment income.

All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Fund invests. The Fund's benchmark is consistent with the Pensions Committee's collective view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

Asset Allocation

To achieve their objectives the Pensions Committee has agreed upon the following benchmark allocation:

Asset class	Interim Allocation Dec 12	Current Allocation Mar 13	Target Allocation July 13
UK/Global Equity	55%	24	25%
Multi Asset strategies	-	35	35%
Absolute Return strategies	15%	15	15%
Property	10%	6	5%
Gilts/Investment grade bonds	20%	20	17%
Infrastructure	0%	0	3%

Equity allocations will be managed using a combination of active and passive strategies. All other allocations will be managed on an active basis. The multi asset strategies will be permitted to invest in a range of asset classes. However, it is not expected that the underlying asset allocation in these strategies will remain static over time.

The Committee has agreed to introduce an allocation to local infrastructure. The prospective investment is an amount of up to £15 million and based on 31 March 2013 levels would be rounded to 3%. Allocations to infrastructure will be introduced as opportunities are identified. Each opportunity will be funded through the payment of additional contributions to the Fund rather than by reallocating existing assets.

The underlying target return of this strategy over the next 10 years is at least the return on long dated index linked gilts plus 3.5% p.a, and allows for the expected returns from the asset classes plus a conservative allowance for performance for active manager skill.

Choosing Investments

The Pensions Committee has appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Pensions Committee have given the investment managers specific directions as to the asset allocation but investment choice has been delegated to these managers subject to their respective benchmarks and asset guidelines. The allocation of assets to each manager is as follows:

Mandate	% of Interim Allocation Dec 2012	% of Target Allocation Jul 2013	Manager	Benchmark	Target
Property	10%	5%	UBS	IPD All balanced (property) Fund's median	To outperform the benchmark
UK Equities (Active)	17%	*TBD	Standard Life	FTSE All Share	+2% net of fees
Global Equities (Active)	17%	*TBD	Baillie Gifford	MSCI All Countries Index	+2.5% net of fees
Global Equities (Passive)	21%	*TBD	State Street Global Assets	Composite	To track the benchmark (gross of fees)
Investment grade bonds	20%	17%	Royal London Asset Management	Composite	+0.75% net of fees
Absolute Return	15%	15%	Ruffer	UK bank deposit rate	To outperform the benchmark (net of fees)
Multi asset	0%	35%	*TBD	*TBD	*TBD
Infrastructure	0%	3%	*TBD	*TBD	*TBD

*TBD (To be decided) this will be completed after the selection of the multi-asset managers and once the committee have confirmed the target allocations.

From time-to-time, particularly when implementing the changes to the strategic asset allocation, when markets are volatile or when dealing costs are high, the Committee may deviate from the long-term strategy on a temporary basis.

The Committee recognises that, while it is impossible to predict short-term market movements, it should use its reasonable judgement in such circumstances. For example, this could be applied with the aim of avoiding excessive dealing costs or reducing the impact of adverse market movements by spreading changes over a number of dealing dates. In doing so, the Committee also recognises that the Fund is intended to meet the liabilities as they emerge over the longer term and hence the normal default position is to be fully invested broadly in line with the strategic benchmark.

Fees

UBS is remunerated by a fixed management fee and the expenses inherent in the management of the pooled property fund. All other fund managers are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management.

Investment Responsibilities

Responsibilities of the Pensions Committee

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment adviser;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the investment managers' expertise and the quality and sustainability of their investment process, procedures, risk management, internal controls and key personnel;
- Reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights;
- Reviewing the investments over which they retain control and to obtaining written advice about them regularly from the investment adviser. The Pensions Committee will also obtain written advice from the investment adviser when deciding whether or not to make any new investments or to transfer or redistribute assets within the mandates, whether due to market movements or other factors;
- Rebalancing the assets with reference to trigger points. When the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweighed assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

The Pensions Committee is advised by The Council's Executive Officers, who are responsible for:

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Pensions Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;
- Investment accounting and preparing the annual report and accounts of the fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

The Investment Managers are responsible for:

- The investment of pension fund assets in compliance with the legislation and the detailed investment management agreements;
- Tactical asset allocation around the managers' strategic benchmark as set by the Pensions Committee;
- Stock selection within asset classes;
- Voting shares in accordance with agreed policy;

- Preparation of quarterly reporting including a review of past investment performance, transaction costs and future investment strategy in the short and long term;
- Attending meetings of the Pensions Committee and officers of the council as required.

The Independent Custodian is responsible for:

- Provision of monthly accounting data summarising details of all investment transactions during the period;
- Providing investment transaction details in a timely manner to the independent performance measurers;
- Safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions;
- The separation of investment management from custody is paramount for the security of the assets of the Fund.

The Actuary is responsible for:

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the reporting standard FRS17/IAS19;
- Advising on the rate of employer contributions required to maintain appropriate funding levels;
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services;
- Preparing the Funding Strategy Statement.

The Independent Measurers are responsible for:

- Providing the Pensions Committee and the Council's executive officers with comparative information on the Fund's performance relative to other funds and the relative performance of different types of investments.

The Investment Adviser is responsible for:

- Advising on the investment strategy of the fund and its implementation;
- Advising on the selection of investment managers, and the custodian;
- Providing investment information, investment advice[1] and continuing education to the Pensions Committee and the executive officers;
- Independent monitoring of the investment managers and their activities.

The Investment Adviser is remunerated by way of time cost fees and fixed fees within an agreed annual budget.

The Auditor

- The Fund is audited annually by the auditors appointed by the Audit Commission. The financial year end is 31st March.

[1] The Investment Adviser is authorised by and registered with the Financial Services Authority for the provision of investment advice.

The Historic Position of Fund

The Fund is unlikely to be fully funded for several years. This has arisen for a number of reasons including:

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge:
- The cost of the redundancy programme in the mid 1990's.
  (Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund).
- Overall investment returns since 1998 falling short of those anticipated in the funding strategy adopted from time to time.
- Longevity improving at a faster rate than anticipated.

At the last triennial valuation (at 31st March 2010) the funding ratio was 61%.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site at www.havering.gov.uk (select Services select 'Council and Democracy', select Pension Fund). This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to be achieved by a combination of increased contributions to the Fund, and achieving good long-term investment returns following the implementation of the new investment strategy in 2012

Review

- The investment strategy is reviewed by the Pensions Committee, at least every three years following the actuarial valuation results or when changes are required.
- The current review is based on the Actuarial Valuation 2010, a subsequent interim assessment of the valuation in 2012 and a review and on-going advice on asset allocation from the Fund's Investment Adviser during 2012.

Reporting

The investment performance of the individual managers is reported to the Pensions Committee and Officers quarterly. Reports are received from the fund's performance measurers and investment advisers, along with executive summaries from each investment manager including details of any voting undertaken in that quarter.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Funding risks**:**

- Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves at a rate faster than that assumed and other demographic factors change increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark.

In 2012, following the 2010 Actuarial Valuation and a full review of investment strategy commissioned from the Fund’s investment adviser, the Pension Committee agreed to revise the investment strategy. The underlying allocation to growth assets following the review is: 80% in a mixture of equities, property and alternative assets/strategies with the remaining 20% in lower volatility bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with manageable long-term costs for the Council.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

<u>Asset risks</u>

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee manages asset risks as follows:

It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Committees’ expected parameters.

The use of multi-asset and absolute return mandates recognises the expectation that risk will vary over time. By permitting the investment manager to not only invest in a diverse range of asset classes, but to vary the underlying asset distribution as market conditions change, the Committee expects that the pattern of returns will be smoothed.

By investing across a range of assets, including quoted equities and bonds; the Committee has recognised the need for some access to liquidity in the short term.

In appointing several investment managers and making appropriate use of passive management, the Committee has considered the risk of underperformance by any single investment manager.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

Investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 1998. The Fund is required to invest any monies which are not required to pay pensions and other benefits and in so doing take account of the need for suitable diversified portfolio investments and the advice of persons properly qualified (including officers) on investment matters.

Types of Investment

In broad terms investments may be made in accordance with the investment regulations in equities, fixed interest and other bonds and property and in the UK and overseas markets. The regulations specify other investment instruments may be used e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts, although historically it has not been the practice of the Fund to participate in these. Any limitations on the use of these instruments will be included within the Investment Management Agreements (IMA's) or equivalent pooled fund rules.

The investment regulations also specify certain limitations on investments.

The Pensions Committee has set out control ranges and restrictions for the Fund's investments. These control ranges and restrictions have been considered when setting the benchmarks for each Manager.

Investment Management

The Investment Managers are each bound by either an Investment Management Agreement (IMA) or, in the case of investment in pooled funds, the relevant Fund Documentation that takes account of:

- The benchmark set, and the allocation of assets within this benchmark;
- Cash needs;
- Risk tolerances;

- The policies on Corporate Governance and Socially Responsible Investment, given later in this document.

  The Investment Manager must also select the appropriate types of investment as defined in the Regulations.

Investment Manager Controls

The Investment Managers are authorised and regulated by the Financial Services Authority (FSA), and must comply with the regulations contained within the Financial Services and Markets Act 2000 (FSMA 2000). Under these regulations, the manager must ensure that suitable internal operating procedures and risk frameworks are in place. FSMA is designed to provide a Fund such as this with an adequate level of protection, and the Investment Managers are obliged to meet their obligation imposed by this act.

The mandates set for the Investment Managers contain controls to ensure compliance with best practice and regulations. Controls on cash levels and transfers of cash and assets are also set within the IMA's or equivalent pooled fund rules.

Social Environmental and Ethical Considerations

'The Pensions Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the view has been taken that, while the non-financial factors should not drive the investment process to the detriment of the financial return of the Fund, it is appropriate for the Investment Manager to take such factors into account when considering particular investments.

Over the longer term, the Pensions Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.'

Corporate Governance and Voting Policy

Corporate Governance Policy

'The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.

In making investment decisions the Council will, through its Pension Fund Investment Manager(s), have regard to the economic interests of the Pension Fund as paramount and as such

1. Will vote at all general meetings of UK companies in which the Fund is directly invested.
2. Will vote in favour of proposals that enhance shareholder value.
3. Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.

4. Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.
5. Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Manager(s) full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

6. Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.
7. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
8. Receive quarterly information from the Investment Manager, detailing new investments made.'

Stock Lending

The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided only to permit stock lending by the Fund's passive equity manager, State Street.

State Street has agreed to indemnify the Fund against any loss arising from insufficient collateral being posted as part of its stock lending programme.

The Committee will review its policy on stock lending from time to time.

Consultation and Publication

The Council has reviewed the Statement of Investment Principles in association with the Fund's Investment Adviser and has also consulted with the employers of the fund, employee representatives and all fund managers through written correspondence.

A copy of this document together with the Myner's Statement of Compliance has been published on the Council's website www.havering.go.uk (select Services, select Council and Democracy, select Pension fund).

The Statement of Investment Principles will be reviewed at least annually and a revised version issued as soon as any significant change occurs. Any comments and suggestions will be considered. Please contact the Pension Fund Accountant with your views at info@havering.gov.uk .

MYNERS Principles for Investment Decision Making

The Pensions Committee will regularly review the Scheme's compliance with this Statement of Investment Principles.

The Action the Council has taken to meet the recommendations made in the Myner's report has been updated to March 2013 and is available as an appendix to this statement.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
1. Effective decision-making **Administrating authorities should ensure that :**		**SUMMARY: FULLY COMPLIANT**
(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2).
(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the running of the administrating authority's and the committee's business is specified in the Council's constitution (Part 3). Declarations of interests are considered at the start of each committee meeting.
	3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers.	The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 3), officer functions are also specified (Part 3).
	4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles.	The delegation process for the running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website at www.havering.gov.uk, follow links council and democracy, constitution. The Statement of Investment Principles (SIP) also includes the delegated functions to the Pensions Committee.
	5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.	Roles of members, officers, external advisors and managers are specified in the SIP.
	6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity.	Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoptation of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Members agreed to completing the CIPFA's Knowledge and Skills self assessment of training needs. The training plan incorporates the outcomes of the self assessments.
	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate knowledge continuity and helps to maintains expertise within the committee. Elected members are provided with a copy of their roles and responsibilities. The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the pension fund.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment Advisor and Actuarial Advisor. The Pension Fund Accountant provides in house support to members. The Pension committee is also supported by the Director of Finance and commerce and the Council's pension administration and payroll sections. Internal and external resources are considered as part of the business plan.
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 -'Members Allowance Scheme')

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of a publicly elected body.
	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receives agendas five working days prior to meeting date.
	14) The **CFO** should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the business plan.
	15) The **CFO** should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan also incorporates the training plan.
	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The business plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship (Reg 31 2008 regulations).	The Pension Fund prepares, publishes and maintains a statement of compliance against a set of good practice principles. The statement shows the extent to which the administrating authority complies with the principles and is reviewed annually.
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is available on the Council's website: www.havering.gov.uk (under Council and democracy, council budgets ansd spending, then Pension Fund) and is included in the Pension Fund Annual Report.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently does not have an administration strategy; consideration of adopting this strategy is reviewed regularly.
2. Clear objectives		**SUMMARY: FULLY COMPLIANT**
(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the **CFO** need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS).

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively.
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. The contract for the external advisor is tendered on a five year cycle enabling performance to be measured in a competitive environment.
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment Advisers a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's SIP.
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Transaction costs are disclosed in the statement of accounts.
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought.Transaction costs are considered in the decision making process when any changes to the investment strategy are under discussion.
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of WM Performance Measurers for independent monitoring of performance against benchmarks. Peer group benchmark performance is used for comparison purposes only.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
3. Risk and liabilities		**SUMMARY: MAJORITY COMPLIANT**
a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	The committee should:	
b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 2007 and reassessed following the 2010 Valuation results. The fund has formulated its own asset allocation based on identified liabilities particular to the fund. The Fund's investment strategy was adopted having considered the members attitude to risks and are covered in the SIP and FSS.
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's SIP.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.
Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**

	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the CFO should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The fund receives a risk assessment as part of the Valuation process with full consultation of the fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are only considered as part of the triennial valuations, however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.**	The external auditors opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken annually by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's Statement of Investment Principles includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund currently does not have an overall risk assessment in the form of a risk register, although ongoing risks are considered as part of the monitoring process. **ACTION**: Monitoring risk in the form of a risk register is being developed.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
4. Performance assessment	**Investments**	**SUMMARY: FULLY COMPLIANT**
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	The committee should:	
b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision- making body and report on this to scheme members	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	During the investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the fund's investment advisors, it considered and initially adopted full active management with appropriate targets and risk controls set. In light of the market events that followed, the Pensions Committee, after assessing the risks, agreed to reduce some of the active management and switch to passive management in relation to UK and oversees equities.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. Where appropriate fund managers will report tracking errors. Each Fund Manager presents their performance reports to the committee on alternate quarters, on each other alternate quarters they meet with officers. This is with the exception of the passive equity manager and the absolute return manager who reports to officers and the committee once a year.
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is considered at each triennial valuation.
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	In addition to officer reports, the investment adviser monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of WM performance measurers who independently report against the overall fund and individual manager returns on a quarterly basis. WM returns are monitored against fund manager returns and discrepancies are investigated. WM also produce an annual performance report.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, WM measure fund manager returns against their agreed benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the WM report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	WM performance returns against peer group benchmarks are used for comparison purposes only.
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	Advisors	
	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	

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	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	
	Decision-making bodies 16) The process of self assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including attendance at all training sessions.
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	
	18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	19) attainment of standards set down in CIPFA's soon to be published knowledge and skills framework; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets are reported in the Pension Fund Annual report.
	20) This assessment should be included in the fund's Annual Report.	The assessment of the committee expectations and training are included in the Annual Report

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
5. Responsible ownership **Administrating authorities should:** **a) adopt, or ensure their investment managers adopt, the Institutional Shareholders' committee Statement of Principles on the responsibilities of shareholders and agents** **b) include a statement of their policy on responsible ownership in the statement of investment principles** **c) report periodically to scheme members on the discharge of such responsibilities.**		**SUMMARY: FULLY COMPLIANT**
	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the SIP, a copy of which is also included in the Pension Fund Annual Report.
	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that non-financial factors should not drive the investment process to the detriment of the financial return of the fund.
	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	Over the long term, the Pensions Committee requires the investment managers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The SIP is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.
	8) The committee should ensure that investment consultants adopt the institutional shareholder committee (ISC) statement of practice relating to consultants.	The ISC is a **voluntary** code of practice and applies to institutional investors on a comply-or-explain basis. Currently all of the funds investment consultants have adopted the voluntary code.
	9) The ISC's Statement of Principles on the responsibilities of shareholders and agents sets out best practice in relation to their responsibilities in respect of investee companies, in that they will: set out their policy on how they will discharge their responsibilities; monitor the performance of, and establish, where necessary, a regular dialogue with investee companies; intervene where necessary; evaluate the impact of their engagement and report back to clients and beneficial owners.	
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
6. Transparency and reporting **Administrating authorities should:** **a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives** **b) provide regular communication to scheme members in the form they consider most appropriate.**	The committee should:	**SUMMARY: FULLY COMPLIANT**
	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non- compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on an annual basis. Any non-compliance is reported and necessary actions included.
	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Councils website at www.havering.gov.uk, follow links for council & democracy, committees, then pension committee. There is also a dedicated page on the Council's website for the pension fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy.
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London boroughs at www.yourpension.org.uk. Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The required content of the Annual Report complies with that stated in the LGPS (Administration) Regulations 2008.

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	6) The Funding Strategy (FSS) , the Statement of Investment Principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the SIP and the Governance Compliance Statement are available on the Council's website at www.havering.gov.uk and are included on a dedicated page for the Pension Fund under the link for council and democracy. This page also includes the pension fund's Communication Strategy. Where applicable reference to all these documents is made in other publications.
	With regard to the FSS and SIP, they should: 7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	The policies includes: the delegation process and the roles of officers, members, external advisors and managers are differentiated; the process by which the fund allocation process has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.
	With regard to the Governance Compliance Statement it must include: 8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with CLG guidance and a copy has been sent to the CLG.
	With regard to the fund's Communication Strategy it must:	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the administrating authorities policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.